

COMPANHIA DE SANEAMENTO BASICO DO ESTADO DE SAO PAULO-SABESP

Form F-3

September 28, 2004

Table of Contents

As filed with the Securities and Exchange Commission on September 28, 2004

Registration No. 333-

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM F-3

REGISTRATION STATEMENT

UNDER THE

SECURITIES ACT OF 1933

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)

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)

With copies to:

Sara Hanks

Howard M. Kleinman, Esq.

Clifford Chance US LLP

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31 West 52nd Street

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New York, New York 10019

New York, New York 10036

(212) 878-8000

(212) 819-8200

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. "

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Offering Price Per Share	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Common shares, without par value ⁽¹⁾	4,532,127,704 ⁽²⁾	\$ 11.755 ⁽³⁾	\$ 213,100,645 ⁽²⁾⁽³⁾	\$ 27,000

- (1) A separate Registration Statement on Form F-6 (file number 333-86118) was filed for the registration of American depository 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 3,940,980,612 common shares which are 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 591,147,092 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 September 21, 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.

Table of Contents

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 SEPTEMBER 28, 2004

PROSPECTUS

American Depositary Shares

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

Representing Common Shares
\$ per ADS

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 September _____, 2004, the last reported sale price of the ADSs on the New York Stock Exchange was \$ _____.

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

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.

	<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.

Global Coordinator and Sole Book Runner

Citigroup

Unibanco

, 2004

Table of Contents

TABLE OF CONTENTS

	<u>Page</u>
<u>PRESENTATION OF FINANCIAL AND STATISTICAL INFORMATION</u>	ii
<u>INCORPORATION OF CERTAIN INFORMATION BY REFERENCE</u>	iii
<u>FORWARD-LOOKING STATEMENTS</u>	iv
<u>SUMMARY</u>	1
<u>RISK FACTORS</u>	10
<u>USE OF PROCEEDS</u>	24
<u>EXCHANGE RATES</u>	25
<u>MARKET INFORMATION</u>	26
<u>CAPITALIZATION</u>	31
<u>SELECTED FINANCIAL DATA</u>	32
<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	36
<u>BUSINESS</u>	62
<u>GOVERNMENT REGULATION</u>	91
<u>MANAGEMENT</u>	98
<u>PRINCIPAL SHAREHOLDERS AND SELLING SHAREHOLDERS</u>	102
<u>RELATED PARTY TRANSACTIONS</u>	103
<u>DESCRIPTION OF CAPITAL STOCK</u>	108
<u>DESCRIPTION OF AMERICAN DEPOSITARY SHARES</u>	118
<u>DIVIDENDS AND DIVIDEND POLICY</u>	124
<u>TAXATION</u>	127
<u>UNDERWRITING</u>	134
<u>VALIDITY OF SECURITIES</u>	137
<u>EXPERTS</u>	137
<u>WHERE YOU CAN FIND MORE INFORMATION ABOUT US</u>	137
<u>SERVICE OF PROCESS AND ENFORCEMENT OF JUDGMENTS</u>	138
<u>INDEX TO FINANCIAL STATEMENTS</u>	F-1

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.

Table of Contents

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. As a result of the recent fluctuations in the *real*/US dollar exchange rate, the commercial selling rate 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.

Table of Contents

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).

Table of Contents

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;
- 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.

Table of Contents

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. Unless otherwise specified, share amounts in this prospectus do not reflect the exercise of the over-allotment option.

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 78.0% of our water customers, through 35,692 kilometers of sewer lines to approximately 4.7 million sewage connections. We currently sell water on a wholesale basis to six other 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 55.7% 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 78.0% of our water customers. 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

Table of Contents

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 provide increase our sewage coverage ratio to 85% of our customers 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.

Table of Contents

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.

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. The information on our website is not incorporated by reference in this prospectus and does not constitute a part of this prospectus.

Table of Contents

The Offerings

Issuer	Companhia de Saneamento Básico do Estado de São Paulo Sabesp.
Selling shareholders	State of São Paulo and Companhia Paulista de Parcerias, 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 being 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 Depository, 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.

Table of Contents

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 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.
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

Table of Contents

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. We will apply for the listing of ADSs being offered in the ADS offering on the New York Stock Exchange under the same symbol. 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.

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)							
Brazilian Corporate Law Method							
	R\$	R\$	R\$	US\$	R\$	R\$	US\$
Statement of Operations Data:							
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 ⁽¹⁾	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						