

COMPANHIA DE SANEAMENTO BASICO DO ESTADO DE SAO PAULO-SABESP
Form 20-F
April 29, 2015

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

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2014

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

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 one Common Share	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.

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, 2014 and 2013 and for the three years ended December 31, 2014 have been audited, as stated in the report appearing herein, and are included in this annual report on Form 20 F.

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 which precede them.

Water Crisis

Our results and operational performance for the fiscal year ended December 31, 2014, were adversely impacted by the most serious drought in our serviced region in 84 years. Both the water conservation measures we implemented to mitigate the effects of the drought on our water supply and a significantly heightened public awareness of the need to conserve water during the current water crisis negatively impacted our revenues. As of December 31, 2014, the reservoirs in the São Paulo metropolitan region, where our largest market is located, contained 301 billion liters of bulk water storage for treatment, compared to 1,037 billion liters (749.6 billion liters above water intake and 287.5 billion liters below water intake) available for treatment as of December 31, 2013. Under normal circumstances, we withdraw 6.2 billion liters per day (equivalent to the total water production of 72 m³/s in February 2014 for the São Paulo metropolitan region) from the reservoirs. This volume decreased to 4.4 billion during the current drought (equivalent to the total water production of 51.4 m³/s in March 2015 for the São Paulo metropolitan region). For more information, see “Item 3.D. Risk Factors—Risks Relating to Our Business—The measures we took to mitigate the effects of the drought resulted in a significant decrease in the volume of water billed and revenues from services we provide, which had a material adverse effect on our company and that may worsen if the drought escalates in severity” and “Item 4.B. Business Overview—The Current Water Crisis”.

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, 2014 was R\$2.6562 to US\$1.00, which was the commercial rate for the purchase of U.S. dollars in effect on December 31, 2014, 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:

- “ARSESP” are to the São Paulo State Sanitation and Energy Regulatory Agency (*Agência Reguladora de Saneamento e Energia do Estado de São Paulo*);

- “ADR” or “ADRs” are to American Depositary Receipt or American Depositary Receipts, respectively;
- “ADS” or “ADSs” are to American Depositary Share or American Depositary Shares, respectively;
- “Brazil” are to the Federative Republic of Brazil;
- “Central Bank” are to the Central Bank of Brazil;
- “CVM” are to the *Comissão de Valores Mobiliários*, the Brazilian regulator of securities;
- “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;
- “real,” “reais” or “R\$” are to the Brazilian real, the official currency of Brazil;
- “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;
- “São Paulo metropolitan region,” with respect to our operations, are to the area where the metropolitan executive office operates, comprising 38 municipalities, including the city of São Paulo;
- “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;
- “State” are to the State of São Paulo, which is also our controlling shareholder;
- “U.S. dollars” or “US\$” are to the United States dollar, the official currency of the United States;
- “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
- “water crisis” are to the drought we have experienced since late 2013. This drought is the most serious drought that our service region has experienced in 84 years and primarily affects the Cantareira System, our largest water production system.

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 that 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 364 municipalities we serve and to our 366 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;
- availability of the water supply, which may continue to be adversely affected by the current water crisis in São Paulo;
- the impact on our business of the water consumption reduction incentive program and other measures we took in 2014 and are taking in 2015 as well as any other measures we may need to take until the water levels of our reservoirs are normalized and sufficient to continuously serve the customers in the São Paulo metropolitan region;
- the impact on our business of lower water consumption practices adopted by our customers during the current water crisis, which may remain in place even after the water levels of our reservoirs normalize;
- decisions by the São Paulo State Department of Water and Energy (*Departamento de Águas e Energia Elétrica do Estado de São Paulo*), or “DAEE”, and the National Water Agency (*Agência Nacional de Águas*), or “ANA”, limiting the volume of water that may be extracted 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;
- our exposure to probable increases in the frequency of extreme weather conditions, including droughts and intensive rain and other climatic events;
- 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;
- 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 and its consumption habits;
- 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 ARSESP regarding several aspects of our business, including limitations on our ability to set and adjust our tariffs;
- the possibility to be subject to a regulatory agency, other than ARSESP; 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), “Presentation of Financial and Other Information” and “Item 5. Operating and Financial Review and Prospects”.

The selected financial data as of December 31, 2014 and 2013 and for the years ended December 31, 2014, 2013 and 2012 have been derived from our audited financial statements, prepared in accordance with IFRS, and included in this annual report. The selected financial data as of December 31, 2012, 2011 and 2010 and for the years ended December 31, 2011 and 2010 have been derived from our audited financial statements, prepared in accordance with IFRS, which is not included in this annual report.

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, 2010 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.A. Financial Statements and Other 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

	For the year ended December 31,						
	2014 ⁽³⁾ US\$	2014 ⁽⁴⁾ US\$	2014 R\$	2013 R\$	2012 ⁽⁵⁾ R\$	2011 ⁽⁵⁾ R\$	2010 ⁽⁷⁾ R\$
	<i>(in millions, except per share and per ADS⁽¹⁾ data)</i>						
Statement of operations data:							
Net operating revenues	3,495.4	4,221.5	11,213.2	11,315.6	10,737.6	9,927.4	9,231.0
Cost of sales and services	(2,380.2)	(2,874.6)	(7,635.6)	(6,816.3)	(6,449.9)	(6,018.7)	(5,194.5)
Gross profit	1,115.2	1,346.9	3,577.6	4,499.3	4,287.7	3,908.7	4,036.5
Selling expenses	(229.6)	(277.3)	(736.6)	(637.1)	(697.3)	(619.3)	(712.9)

Administrative expenses	(288.1)	(348.0)	(924.4)	(729.1)	(717.4)	(683.6)	(653.2)
Operating profit	595.6	719.3	1,910.7	3,138.8	2,843.3	2,512.0	2,672.2
Financial income (expenses), net	(198.2)	(239.4)	(635.9)	(483.2)	(295.7)	(633.0)	(379.4)
Net income	281.5	340.0	903.0	1,923.6	1,911.9	1,380.9	1,630.5
Earnings per share – basic and diluted ⁽²⁾	0.41	0.50	1.32	2.81	2.80	2.02	2.39
Earnings per ADS – basic and diluted ⁽⁶⁾⁽²⁾	0.41	0.50	1.32	2.81	2.80	2.02	2.39
Dividends and interest on shareholders' equity per share ⁽²⁾	0.10	0.12	0.32	0.67	0.66	0.43	0.57
Dividends and interest on shareholders' equity per ADS ⁽⁶⁾⁽²⁾	0.10	0.12	0.32	0.67	0.66	0.43	0.57
Weighted average number of common shares outstanding ⁽²⁾	683,509,869 683,509,869 683,509,869 683,509,869 683,509,869 683,509,869 683,509,869						

Balance Sheet Data

	As of December 31,						
	2014⁽³⁾	2014⁽⁴⁾	2014	2013	2012⁽⁵⁾	2011⁽⁵⁾	2010⁽⁷⁾
	US\$	US\$	R\$	R\$	R\$	R\$	R\$
	<i>(in millions, except per share and per ADS⁽¹⁾ data)</i>						
Property, plant and equipment	95.0	114.8	304.8	199.5	196.7	181.6	249.6
Intangible assets	8,098.4	9,780.7	25,979.5	23,846.2	21,967.5	20,125.7	18,546.8
Total assets	9,462.4	11,428.1	30,355.4	28,274.3	26,476.1	24,983.2	23,350.6
Current portion of long term loans and financing	376.3	454.5	1,207.1	640.9	1,342.6	1,629.2	1,242.1
Long term loans and financing	2,985.9	3,606.1	9,578.6	8,809.1	7,532.7	6,794.1	7,022.5
Interest on shareholders' equity payable	66.9	80.8	214.5	457.0	414.4	247.5	354.3
Total liabilities	5,315.2	6,419.3	17,051.0	15,343.5	15,219.4	14,438.3	13,668.8
Equity	4,147.3	5,008.8	13,304.4	12,930.8	11,256.8	10,544.9	9,681.8
Capital stock	3,117.2	3,764.8	10,000.0	6,203.7	6,203.7	6,203.7	6,203.7
Other financial information:							
Cash generated from operating activities	773.1	933.8	2,480.3	2,777.2	2,343.2	2,698.6	2,083.0
Cash used in investing activities	(859.6)	(1,038.2)	(2,757.7)	(2,281.5)	(1,996.7)	1,883.2	(2,091.4)
Cash provided by (used in) financing activities	68.1	82.3	218.5	(629.7)	(572.7)	(661.3)	1,226.5
Purchases of intangible assets and property, plant and equipment as presented in our statement of cash flow	(856.7)	(1,034.7)	(2,748.3)	(2,335.8)	(2,026.1)	(2,068.8)	(1,901.5)

(1) ADS.

(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) Translated at the commercial selling rate at closing for the purchase of U.S. dollars, as reported by the Central Bank, as of March 31, 2015 of R\$3.2080 to US\$1.00.

(4) Translated at the commercial selling rate at closing for the purchase of U.S. dollars, as reported by the Central Bank, as of December 31, 2014 of R\$2.6562 to US\$1.00.

(5) 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 our audited financial statements for the year ended December 31, 2013. 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 S/A, Águas de Castilho S.A., Saneaqua Mairinque, Aquapolo Ambiental S.A. and Attend Ambiental S.A. are recognized using the equity method of accounting in 2014, 2013, 2012 and 2011 rather than through proportional consolidation as previously.

(6) On January 10, 2013, the ratio of 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.

(7) Data for 2010 has not been restated in application of IAS 19 – Employee Benefits (as revised in 2011) and IFRS 11 – Joint Arrangements. In particular, data for 2010 reflects 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 as opposed to the equity method of accounting applicable in 2014, 2013, 2012 and 2011.

Operating Data

	As of and for the year ended December 31,				
	2014	2013	2012	2011	2010
Number of water connections (in thousands)	8,210	7,888	7,679	7,481	7,295
Number of sewage connections (in thousands)	6,660	6,340	6,128	5,921	5,718
Percentage of population with water connections (in percentages)	99	99	99	99	99
Percentage of population with sewer connections (in percentages)	85	84	83	82	81
Percentage of treated sewer ⁽¹⁾ (in percentages)	77	78	77	76	75
Volume of water billed during period (in millions of cubic meters)	2,069	2,149	2,094	2,045	1,992
Water Billed Loss Index during period (average) (in percentages) ⁽²⁾	21.3	24.4	25.7	25.6	26.0
Water Metered Loss Index during period (average) (in percentages) ⁽³⁾	29.8	31.2	31.1	32.0	32.3
Water loss per connection per day (average) ⁽⁴⁾	319	372	393	395	403
Number of employees	14,753	15,015	15,019	14,896	15,330

(1) Treated sewage as a percentage of collected sewage.

(2) Includes both physical and non physical water loss. Water Billed Loss Index represents the quotient of (i) the difference between (a) the total amount of water produced plus (b) the total amount of water invoiced minus (c) the volume of water excluded from our calculation of water loss, divided by (ii) the total amount of water produced. For more information, see “Item 4.B. Business Overview—Description of Our Activities—Water Operations—Water Loss”.

We exclude the following from our calculation of water loss: (i) water discharged for periodic maintenance of water transmission lines and water storage tanks; (ii) water supplied for municipal uses such as firefighting; (iii) water we consume in our facilities; and (iv) estimated water loss related to the supply of water to shantytowns (*favelas*).

(3) Includes both physical and non physical water loss. The Water Metered Loss Index represents the quotient of (i) the difference between (a) the total amount of water produced minus (b) the total amount of water measured minus (c) the volume of water that we exclude from our calculation of water loss, divided by (ii) the total amount of water produced. For more information, see “Item 4.B. Business Overview—Description of Our Activities—Water Operations—Water Loss”.

We exclude the following from our calculation of water loss: (i) water discharged for periodic maintenance of water transmission lines and water storage tanks; (ii) water supplied for municipal uses such as firefighting; (iii) water we consume in our facilities; and (iv) estimated water loss related to the supply of water to shantytowns (*favelas*).

(4) Measured in liters/connection per day, this amount is calculated by dividing (i) the average annual water loss by (ii) the average number of active water connections multiplied by the number of days of the year. This calculation method is based on worldwide market practice within the sector. See “Item 4.B. Business Overview—Description of Our Activities—Water Operations—Water Loss”.

We exclude the following from our calculation of water loss: (i) water discharged for periodic maintenance of water transmission lines and water storage tanks; (ii) water supplied for municipal uses such as firefighting; (iii) water we consume in our facilities; and (iv) estimated water loss related to the supply of water to shantytowns (*favelas*).

Exchange Rates

In the past, the Brazilian National Monetary Council (*Conselho Monetário Nacional*), or the “CMN”, has introduced changes to the Brazilian foreign exchange regime, such as unifying the Commercial and Floating Markets and easing the rules governing the ability of Brazilian residents to acquire foreign currency, among others. On March 24, 2010, the CMN and the Central Bank approved Resolution No. 3,844/2010, which led to a series of measures to consolidate and simplify Brazilian foreign exchange market regulations.

The Brazilian foreign exchange system allows any person or legal entity to purchase or sell foreign currency and make international transfers of *reais*, regardless of the amount, subject to certain regulatory procedures.

The Brazilian currency has experienced frequent and substantial variations in relation to the U.S. dollar and other foreign currencies in recent decades. Between 2003 and mid 2008, the *real* appreciated significantly against the U.S. dollar with the exchange rate reaching R\$1.634 in August 2008. Primarily as a result of the global financial crisis, the *real* depreciated 32.0% against the U.S. dollar during 2008 and closed the year at R\$2.337 per US\$1.00. The *real* strengthened again by 25.5% in 2009 and 4.3% in 2010, but depreciated against the U.S. dollar by 12.6% in 2011, 8.94% in 2012 and 14.63% in 2013. On December 31, 2014, 2013 and 2012, the *real*/U.S. dollar exchange rate was R\$2.6562, R\$2.3426 and R\$2.0435 per US\$1.00, respectively.

Since 1999, following Brazil's implementation of a floating rate regime, the Central Bank has not directly intervened in the exchange market. However, the Central Bank, using financial instruments at its disposal, may buy and sell foreign currency in the market in order to influence the exchange rate and decrease volatility with respect to the Brazilian *real*. We cannot predict whether the Central Bank or the Brazilian government will continue to let the *real* float freely or will intervene in the exchange rate through a currency band system or other procedure. The *real* may fluctuate against the U.S. dollar substantially in the future. For further information on this risk, see "Item 3.D. Risk Factors—Risks Relating to Brazil—Exchange rate instability may adversely affect us and the market price of our common shares or ADSs".

Exchange rate fluctuations will affect the U.S. dollar equivalent of the *real* price of our common shares on the São Paulo Stock Exchange (*BM&FBOVESPA S.A. Bolsa de Valores, Mercadorias e Futuros*), or the "BM&FBOVESPA", as well as the U.S. dollar equivalent of any distributions we make in *reais* with respect to our common shares.

The following tables set forth the selling rate, expressed in *reais* per U.S. dollar (R\$/US\$), for the periods indicated:

Year ended December 31,	Year end	R\$ per US\$1.00		
		Average ⁽¹⁾	High	Low
2010	1.6662	1.7593	1.8811	1.6554
2011	1.8758	1.6746	1.9016	1.5345
2012	2.0435	1.9550	2.1121	1.7024
2013	2.3426	2.1605	2.4457	1.9528
2014	2.6562	2.3547	2.7403	2.1974

Month ended	Period end	R\$ per US\$1.00		
		Average	High	Low
October 31, 2014	2.4442	2.4483	2.5341	2.3914
November 30, 2014	2.5601	2.5484	2.6136	2.4839
December 31, 2014	2.6562	2.6394	2.7403	2.5607
January 31, 2015	2.6623	2.6342	2.7107	2.5754
February 28, 2015	2.8782	2.8165	2.8811	2.6894
March 31, 2015	3.2080	3.1395	3.2683	2.8655
April 22, 2015	3.0186	3.0809	3.1556	3.0186

Source: Central Bank

(1) Average of the exchange rates on the last day of each month.

The following tables set forth the selling rate, expressed in *reais* per Japanese Yen (R\$/¥1.00):

Year ended December 31,	Year end	R\$ per ¥1.00		
		Average ⁽¹⁾	High	Low
2010	0.0205	0.0201	0.0212	0.0183
2011	0.0243	0.0211	0.0249	0.0186

2012	0.0237	0.0245	0.0263	0.0211
2013	0.0223	0.0221	0.0248	0.0196
2014	0.0222	0.0222		