

## Table of Contents

- the effects of the program contract for provision of water and sewage services in the city of São Paulo, which stipulates an obligation to allocate 7.5% of our revenue from the city of São Paulo to FMSAI, as ARSESP has limited the pass-through of the amount of the tariff transferred to municipal infrastructure funds to 4%;
- our management's expectations and estimates relating to our future financial performance;
- 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;
- the impact of widespread health developments, such as COVID-19, and its effects on our operating revenues and financial condition;
- the delay or postponement in investment in our sewage system;
- the possibility to be subject to other regulatory agencies other than ARSESP;
- power shortages, rationing of energy supply or significant changes in energy tariffs;
- 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 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 ADVISORS**

Not applicable.

#### **ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE**

Not applicable.

#### **ITEM 3. KEY INFORMATION**

##### **A. [RESERVED]**

##### **B. Capitalization and Indebtedness**

Not applicable.

##### **C. Reasons for the Offer and Use of Proceeds**

Not applicable.

##### **D. Risk Factors**

#### **Summary of Risk Factors**

This section is intended to be a summary of more detailed discussions contained elsewhere in this annual report. The risks described below are not the only ones we face. Our business, results of operations or financial condition could be harmed if any of these risks materialize.

## **Table of Contents**

### **Risks Relating to Our Proposed Privatization**

- Our Proposed Privatization is subject to the fulfillment of certain legal requirements and may be subject to further conditions precedent. If we are not able to fulfill these formal requirements, or to meet such conditions precedent, our Proposed Privatization will not be completed, which may materially adversely affect our prospects and the market price of our common shares and ADSs.
- Our controlling shareholder could suspend or terminate the Proposed Privatization. Additionally, our Proposed Privatization may be challenged, which could delay or prevent its consummation.
- If our Proposed Privatization is consummated, the State of São Paulo will no longer be our majority shareholder, which brings uncertainties that are beyond our control regarding the maintenance of our current program contracts.
- Our debentures issuances and financing agreements governing our debt contain change of control provisions that are triggered if the State of São Paulo government ceases to be our controlling shareholder, including in connection with our Proposed Privatization. If we are not able to obtain the necessary waivers or approvals from our debenture holders, bank lenders and/or other creditors, regarding our Proposed Privatization, prior to completion of the Proposed Privatization, those debentures, loans and/or obligations could be subject to acceleration, cross-default, cross acceleration or termination, which could materially adversely affect our financial condition and results of operations.
- If our Proposed Privatization includes a primary offering of common shares by us, our current shareholders will experience immediate dilution after the offering. In addition, if our Proposed Privatization is consummated, our bylaws will contain provisions that limit the voting rights of all shareholders, including non-Brazilian shareholders, which could prevent or delay transactions that holders of our shares or ADRs may favor.
- If our Proposed Privatization is consummated, we will no longer have a controlling shareholder that holds more than 50% of our capital stock, which may make us susceptible to shareholder alliances, shareholder conflicts and other events arising from the absence of a controlling shareholder or a controlling group.

### **Risks Relating to Brazil**

- The Brazilian government has exercised, and continues to exercise, significant influence over the Brazilian economy. This influence, as well as Brazilian political and economic conditions, could adversely affect us and the market price of our common shares and ADSs.
- Changes in Brazilian tax laws or conflicts in their interpretation may adversely affect us.
- Ongoing political instability has adversely affected the Brazilian economy and may lead to an economic slowdown, which may have an adverse effect on our financial condition and results of operations.
- Inflation and the Brazilian government's measures to combat inflation may contribute to economic uncertainty in Brazil, adversely affecting us and the market price of our common shares or ADSs.
- Exchange rate instability and developments and the perception of risk in other countries, especially in the United States and in emerging market countries, may adversely affect us, our foreign currency denominated debt and the market price of our common shares or ADSs and our ability to service our foreign currency denominated obligations.
- Downgrades in Brazil's credit rating could adversely affect our credit rating, the cost of our indebtedness and the trading price of our common shares and ADSs.
- Brazil's economy is vulnerable to external and internal shocks, which may have a material adverse effect on Brazil's economic growth and on the trading markets for securities.
- Disruption or volatility in global financial and credit markets could have a material adverse effect on us.

### **Risks Relating to Our Control by the State of São Paulo**

- We are controlled by the State of São Paulo, whose interests may differ from the interests of non-controlling shareholders, including holders of ADSs.

## **Table of Contents**

- Our right to withdraw water from the Guarapiranga and Billings reservoirs is being challenged judicially by minority shareholders of EMAE.
- Transactions with related parties, including as part of our Proposed Privatization, may not have comparable market terms available and may not be entered into on an arm's length basis, which could expose us to lawsuits and affect our financial results.

### **Risks Relating to Our Business**

- Our current tariff structure is outdated and does not reflect the current socioeconomic changes the State of São Paulo has undergone over the past decades. Any updates to the tariff structure may lead to uncertainties in the market as well as unpredictability about our future revenues.
- Certain terms of our agreement to provide water and sewage services in the city of São Paulo could have a material adverse effect on us.
- Any failure to obtain new funding or to comply with covenants in our existing financing agreements may adversely affect our ability to continue our capital expenditure program.
- Any substantial monetary judgment against us or any of our directors and officers in legal proceedings may have a material adverse effect on our reputation, business or operating or financial condition and/or results.
- We are subject to anti-corruption, anti-bribery, anti-money laundering, sanctions and antitrust laws and regulations. Our violation of any such laws or regulations could have a material adverse effect on our reputation, our results of operations and our financial condition.
- Our business is subject to cyberattacks and security and privacy breaches.
- Failure to comply with the LGPD or any further privacy and data protection laws enacted in Brazil could adversely affect our reputation, business, financial condition or results of operations.
- Our failure to protect our intellectual property rights may negatively impact us.
- Industrial accidents, equipment failure, environmental hazards or other natural phenomena may adversely affect our operations, assets and reputation and might not be covered by our insurance policies.
- We cannot guarantee that our third-party suppliers and/or service providers will not become involved in any irregular practices.
- Our financial and operating performance may be adversely affected by epidemics, natural disasters and other catastrophes.
- If we are not successful in addressing issues related to the occupational health and safety of our employees and the facilities where we conduct our activities, our results and operations could be adversely affected.
- If any of our assets are deemed assets dedicated to providing an essential public service, they will not be available for liquidation and will not be subject to attachment to secure a judgment.
- If our Proposed Privatization is completed, we will no longer be a state-controlled company and will be subject to the Brazilian Bankruptcy Law.
- Strikes, work stoppages or labor unrest by our employees or by the employees of our suppliers or contractors could adversely affect our business.
- If we do not remedy the material weakness in our internal controls, the reliability of our financial statements may be materially affected.

### **Risks Relating to Suppliers**

- Any interruptions in the supply of electricity and water may adversely affect our operations.
- Our business may be adversely affected by reliance on services and products from third-party suppliers.

## **Table of Contents**

### **Risks Relating to Our Clients**

- We are owed some substantial unpaid debts. We cannot assure you as to when or whether we will be paid.

### **Risks Relating to Our Management**

- We depend on the technical qualifications of the members of our management, and we cannot guarantee that we will be able to maintain them or replace them with suitable individuals.

### **Risks Relating to the Regulatory Environment**

- Pursuant to the New Legal Framework for Basic Sanitation, ANA will be responsible for issuing reference standards. Any non-compliance will prevent municipalities or operators from accessing financings and public resources managed or operated by the Brazilian government.
- The regionalization of services, established in the New Legal Framework for Basic Sanitation, may have an adverse effect on our business, financial condition or results of operations.
- The New Legal Framework for Basic Sanitation prohibits new program contracts for basic sanitation services, resulting in uncertainties for our current and future customer base and size of operations.
- Municipalities may terminate contracts before they expire in certain circumstances. The indemnification payments we receive in such cases may be less than the value of the investments we made, or may be paid over an extended period, adversely affecting our business, financial condition, or results of operations.
- We cannot guarantee compliance with the new Universalization Targets for reasons beyond our control, based on the guidelines outlined in the New Legal Framework for Basic Sanitation and the State Law that authorized our Proposed Privatization.
- If the water from our water sources (mananciais) does not meet our water treatment conditions, we may have to interrupt the water treatment process until we are able to treat the water or to substitute the supply of water from another water source.
- Risks associated with the collection, treatment and disposal of wastewater and the operation of water utilities may impose significant costs that may not be covered by insurance, which could result in increased insurance premiums.
- We are exposed to risks of delays or failures in payments associated with the provision of water and sewage services.
- Our water loss and other operational metrics indicate that we will need to make investments in our infrastructure. If any such investments are insufficient in adequately reducing water loss rates, this could have a material adverse effect on us.
- Securing new concessions, new public-private partnerships and new acquisitions involve risks related to the integrations of the adjudicated or acquired businesses, the situation of the assets and the regularity of the operations related to the concessions.
- Risks related to encumbrances, which may adversely affect us in the event of default on the obligations guaranteed by our properties.
- We may not be able keep in force or timely renew all permits and/or licenses for use and operation necessary for the development of our activities.
- According to the Brazilian law regulating concessions and public-private partnership matters, our corporate structure is composed of some special purpose entities, which may result in our responsibility for tax, labor, environmental protection, consumer and bankruptcy matters originated from our subsidiaries.
- We are subject to intervention by the Court of Auditors of the State (Tribunal de Contas do Estado) as well as questioning by third parties related to our concession and program contracts.
- We are subject to penalties related to our registrations, authorizations, licenses and permits for the development of our activities.

## Table of Contents

### **Risks Relating to Environmental Matters and Physical and Transition Climate Risks**

- Noncompliance with environmental laws and environmental liability could have a material adverse effect on us, our reputation and image.
- Droughts, such as the 2014 - 2015 water crisis, can cause a material impact on consumption habits and, consequently, on our business, financial condition or results of operations.
- Extreme Weather Conditions and Climate Change may have a material adverse impact on our business, financial condition or results of operations.
- New laws and regulations relating to climate change and changes in existing regulation may result in increased liabilities and increased capital expenditures, which could have a material adverse effect on us.

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

- We may need to raise additional funds in the future and may issue additional common shares, which may result in a dilution of your interest in our common shares underlying the ADS. In addition, a dilution of your interest in our common shares underlying the ADS may occur in the event of our merger, consolidation or any other corporate transaction of similar effect in relation to companies that we may acquire in the future.
- International judgments may not be enforceable when considering our directors or officers' status of residency.
- We may not always be in a position to pay dividends or interest on shareholders' equity and ADSs.
- The relative volatility and illiquidity of the Brazilian securities markets may substantially limit your ability to sell our common shares underlying the ADSs at the price and time you desire.
- Investors who exchange ADSs for common shares may lose their ability to remit foreign currency abroad and obtain Brazilian tax advantages.
- A holder of common shares or ADSs may face difficulties in protecting his or her interests as a shareholder because we are a Brazilian mixed capital company.
- Mandatory arbitration provisions in our bylaws may limit the ability of a holder of our ADRs to enforce liability under U.S. securities laws.
- A holder of our common shares and ADSs might be unable to exercise preemptive rights and tag-along rights with respect to the common shares.
- Holders of our ADSs do not have the same voting rights as our shareholders.
- If we issue new shares or our shareholders sell shares in the future, the market price of your ADS may be reduced.
- Judgments of Brazilian courts with respect to our common shares are required to be payable only in reais.
- Changes in Brazilian tax laws may have an adverse impact on the taxes applicable to a disposition of our shares or ADS.

### **Risks Relating to Our Proposed Privatization**

***Our Proposed Privatization is subject to the fulfillment of certain legal requirements and may be subject to further conditions precedent. If we are not able to fulfill these formal requirements, or to meet such conditions precedent, our Proposed Privatization will not be completed, which may materially adversely affect our prospects and the market price of our common shares and ADSs.***

Our Proposed Privatization requires that we fulfill certain legal requirements, in particular obtaining legislative authorization and approval of the transaction structure by the Governor of the State of São Paulo, following the recommendation from the Board of Directors of the CDPED, a body subordinate to the Governor of the State of São Paulo.

## Table of Contents

The State Legislative Assembly granted legislative authorization for our Proposed Privatization in December 2023, through the approval of Law 17,853/2023 of the State of São Paulo, which, among others, authorized the executive branch of the state to privatize us and to define the model for our Proposed Privatization to be carried out, based on certain broad guidelines provided for our Proposed Privatization.

Furthermore, State Law No. 9,361/1996, which stipulates general rules for privatizations, provides that the model for the privatization in the State of São Paulo must be approved by the CDPED. This approval was granted on April 17, 2024, and the CDPED: (a) established the timetable of our Proposed Privatization, determining that the public offering must take place in time to use the first quarter financial results of 2024; (b) established the structure of the public offering in a two stage process, with the selection of a strategic investor in the first stage; (c) proposes investment agreement, lock-up agreement and other agreements for the strategic investor; (d) established the guarantee of stability for employees, in accordance with State Law No. 17,853/2023, for a period of 18 months from the effective completion of our Proposed Privatization; and (e) recommended the offering of ordinary shares owned by the State of São Paulo to employees. The determination of the minimum share price and the percentage of the State of São Paulo's stake in our capital share to be sold, as well as the details of the investment and lock-up agreements will be decided at a future meeting of the CDPED.

The CDPED also forwarded to the representatives of the deliberative council of URAE-1, for their first meeting, the drafts of the Concession Agreement for URAE-1, the internal regulation of the deliberative council, and the regional sanitation plan. On April 22, 2024, we published a material fact to inform our shareholders and the market in general about the summoning of URAE - 1 representatives for the first meeting of the deliberative council, which will be held on May 20, 2024, as well as inform that the following documents were delivered to these representatives: (i) Concession Agreement for URAE-1 and its annexes, indicating the role of ARSESP, (ii) draft internal regulation of the deliberative council of URAE-1, and (iii) draft of the regional basic sanitation plan, pursuant to article 17 of Federal Law No. 11,445/2007. For further information, see "Presentation of Financial and Other Information-Proposed Privatization."

Additionally, the CDPED approved certain amendments to our bylaws, in order to: (a) establish our authorized capital; (b) create the golden share, which will be exclusively held by the State of São Paulo, giving them veto power over proposed changes to: (i) our name and headquarters, (ii) our corporate purpose of providing water and sewage services, and (iii) any provision in our bylaws regarding limits on the exercise of voting rights attributed to shareholders or groups of shareholders; (c) limit the exercise of voting rights to 30% of our voting shares; (d) limit our Board of Executive Officers to the maximum of seven members; (e) establish that our Board of Directors' appointment will be conducted by means of slate; (f) prohibit the election of more than three members of our Board of Directors by the State of São Paulo; (g) provide that at least three members of our Board of Directors must be considered independent under the *Novo Mercado* Regulation; (h) create the Eligibility and Compensation Committee, Sustainability and Corporate Responsibility Committee, and Related Parties' Transaction Committee; (i) enable us to execute indemnity agreements (*contratos de indenidade*); (j) provide poison pill provisions to be triggered if any shareholder or group of shareholders holds more than 30% of our capital stock; and (k) adapt our bylaws to the best corporate governance practices.

If we fail to fulfill any of these legal requirements or fail to meet the conditions precedent potentially set forth by the Governor of the State of São Paulo, or if market conditions are not met, we will not be able to complete our Proposed Privatization. In addition, we cannot guarantee that our shareholders will approve the changes to our bylaws necessary to implement our Proposed Privatization, such as the restrictions on voting rights and the poison pill. Any failure to consummate our Proposed Privatization may have a material adverse effect on our future prospects and the market price of our common shares and ADRs. In addition, we would have already spent considerable management time on this process and incurred costs in relation to advisers, legal counsels, independent auditors, and others as part of this process.

For more information, see "Item 3.D. Risk Factors-Risks Relating to Our Proposed Privatization-Our controlling shareholder could suspend or terminate the Proposed Privatization. Additionally, our Proposed Privatization may be challenged, which could delay or prevent its consummation."

***Our controlling shareholder could suspend or terminate the Proposed Privatization. Additionally, our Proposed Privatization may be challenged, which could delay or prevent its consummation.***

Our controlling shareholder may suspend or terminate our Proposed Privatization in case it determines that certain criteria of, or market conditions for, our Proposed Privatization are not in the public interest. State Law No. 17,853/2023 authorizes our Proposed Privatization. However, the Governor of the State of São Paulo has the constitutional power to suspend or terminate our Proposed Privatization if he decides that it is not in the public interest, for example, if it does not meet certain criteria, such as market conditions.

Our Proposed Privatization would bring forward the deadline to meet the Universalization Targets to December 31, 2029. However, in case our Proposed Privatization is not concluded, the original target of 2033 for the universalization of water supply and sanitary sewage set out in the New Legal Framework for Basic Sanitation would be maintained. Additionally, we would still need to comply with the Universalization Targets stipulated in our contracts with the municipalities. Some of our contracts, such as our contract with the city of São Paulo, states that we will have to comply with the Universalization Targets in the city by the 2029 regardless of our Proposed Privatization being consummated. Bringing forward the deadline to achieve the Universalization Targets increases the challenge of meeting them. Failure to comply with the deadline could lead to sanctions being imposed by the regulatory agency, potentially resulting in the forfeiture of the concession. Additionally, the Concession Agreement for URAE-1, which was under public consultation, also introduces the universalization factor, which is a tariff mechanism that penalizes us in the event of non-compliance with the Universalization Targets ("Factor U"). For further information, see "Item 4.B. Business Overview-Tariff Readjustments and Reviews."

Additionally, the model and other aspects of our Proposed Privatization, such as the legislative proceeding that resulted in the enactment of Law 17,853/2023 by the State of São Paulo, may be or are being challenged by regulatory bodies, consumer groups and other interested parties, and subsequently suspended by the Brazilian courts, which may delay or even prevent the completion of our Proposed Privatization and have adverse legal and reputational effects on us. Further, the Brazilian courts or regulatory bodies may require us to further adjust the structure of our Proposed Privatization, which may impede or delay it. As of the date of this annual report, there are several ongoing lawsuits challenging in court certain aspects of our Proposed Privatization. See "Item 8.A. Consolidated Financial Statements and Other Financial Information-Legal Claims Related to our Proposed Privatization" for further information about legal proceedings related to our Proposed Privatization.

## Table of Contents

In addition, the decision of the State of São Paulo government to proceed with our Proposed Privatization may be affected by market conditions and political decisions, which may also adversely affect our Proposed Privatization and operations. Certain politicians are actively opposed to our Proposed Privatization. As a result, if our Proposed Privatization is consummated, it could be challenged by members of opposition parties.

***If our Proposed Privatization is consummated, the State of São Paulo will no longer be our majority shareholder, which brings uncertainties that are beyond our control regarding the maintenance of our current program contracts.***

On December 8, 2023, Law No. 17,853/2023 of the State of São Paulo authorized our Proposed Privatization. According to the New Legal Framework for Basic Sanitation, in case of a change of control of state-owned companies, the program contracts in force may be replaced by new concession agreements. If the controller of the public company does not express the need to change the term, object or other clauses of the contract at the time of the privatization, prior approval for the privatization by the public entity contractor is not required. However, if contractual changes are proposed by the State of São Paulo, a proposal to replace the existing contracts must be submitted to the contracting municipalities, which will have 180 days to decide whether to agree to the revised terms. Failure to do so within this period will constitute consent to the proposed contractual changes.

In this respect, the SEMIL published, on February 15, 2024, Public Consultation No. 01/2024, with the objective of collecting contributions on the draft Concession Agreement for URAE-1 to be signed between us and URAE-1, which provides for the proposal of contractual changes and therefore is intended to replace all current contracts with the municipalities covered by URAE-1. The following documents, among others, were also discussed in this Public Consultation: (i) annex II of the Concession Agreement for URAE-1, which contains the technical annexes for all municipalities that are part of URAE-1, and which present the indicators and targets for coverage, losses, and quality of service provision to be followed; (ii) internal regulation of the deliberative council of URAE-1, which aims to regulate the functioning of this council; and (iii) URAE-1 regional sanitation plan, which establishes planning of sanitation actions in line with the principles of the PLANSAB. The Public Consultation No. 01/2024 ended on March 15, 2024, and the SEMIL published a report on the contributions on April 30, 2024. For further information, see “Presentation of Financial and Other Information–Proposed Privatization.”

Some of our program contracts, including the contract with the city of São Paulo, include termination clauses in the event of transfer and/or change of control. These termination clauses are based on paragraph 6, article 13 of Federal Law No. 11,107/2005, which was revoked by article 9 of Federal Law No. 14,026/2020. If the municipalities adopt the understanding that these termination clauses are still effective despite their revocation, and if the current program contracts are not replaced by the Concession Agreement for URAE-1 prior to our Proposed Privatization, the municipalities could declare a termination of their respective program contracts as a result of the completion of our Proposed Privatization, thus adversely affecting our business, financial condition, or results of operations. Further, any reduction in revenues as a result may lead to us no longer being in compliance with the financial covenants contained in our existing financings.

Also, if any municipality with an existing program contract with similar termination provisions decides not to join URAE-1, the termination of their respective program contracts could also be triggered by the completion of our Proposed Privatization, thus adversely affecting our business, financial condition, or results of operations.

Finally, we cannot assure that all the municipalities that as of the date of this annual report are our clients will obtain whenever needed the necessary legislative authorization, have adhered to any URAE and/or will maintain their existing program contracts or execute concession agreements with us. In case municipalities that represent a substantial part of our revenues do not maintain or execute their agreements with us, our business, financial condition, or results of operations may be adversely affected, and we may be prevented from accessing public funding.

***Our debentures issuances and financing agreements governing our debt contain change of control provisions that are triggered if the State of São Paulo government ceases to be our controlling shareholder, including in connection with our Proposed Privatization. If we are not able to obtain the necessary waivers or approvals from our debenture holders, bank lenders and/or other creditors, regarding our Proposed Privatization, prior to completion of the Proposed Privatization, those debentures, loans and/or obligations could be subject to acceleration, cross-default, cross acceleration or termination, which could materially adversely affect our financial condition and results of operations.***

As of December 31, 2023, the outstanding balance of our indebtedness totaled R\$19.5 billion, of which (i) R\$7.3 billion relate to debenture issuances in the local market, (ii) R\$3.0 billion relate to financing agreements executed with entities such as BNDES, the Brazilian Federal Savings Bank (*Caixa Econômica Federal* – “CEF”) and the Funding Authority for Studies and Projects (*Financiadora de Estudos e Projetos* – “FINEP”), and (iii) R\$8.4 billion relate to financing agreements executed with multilateral entities, including IFC, IDB Invest, IBRD and JICA, of which R\$5.0 billion are guaranteed by the Brazilian government with a counter-guarantee from the State of São Paulo.

## Table of Contents

Our debenture issuances contain change of control provisions that will be triggered if our Proposed Privatization is consummated. If we complete our Proposed Privatization but fail to obtain prior waivers from the debenture holders in connection to the Proposed Privatization, we would be subject to acceleration or termination and cross-default or cross acceleration of other financial instruments to which we are party. As of the date of this annual report, the general meetings of the debenture holders of our 27<sup>th</sup>, 28<sup>th</sup> and 30<sup>th</sup> debentures issuances were held, through which the debenture holders granted waivers for our Proposed Privatization subject to certain conditions (such as the payment of a waiver fee, the shareholder structure to take place after the Proposed Privatization and the non-occurrence of rating downgrade event). On April 29, 2024, we called, in the second convocation, the general meeting of the debenture holders of our 26<sup>th</sup> debenture issuance, and we also expect to call, also in the second convocation, the general meetings of the debenture holders of our 22<sup>nd</sup>, 23<sup>rd</sup>, 24<sup>th</sup>, 25<sup>th</sup> and 29<sup>th</sup> debentures issuances expected to be held in May 2024 to obtain the applicable waivers in connection with the Proposed Privatization (in exchange for a waiver fee to be paid to the debenture holders and the fulfillment of the criteria and conditions agreed with the debentures holders). The waiver fee being proposed in the management proposals for the general meetings of the debenture holders to be held in the second convocation, is of 0.10%, to be applied to the updated outstanding balance of the debentures calculated on the date of the general meeting.

At the date of this annual report, we cannot guarantee that the required waivers will be granted by requisite debenture holders within the terms required and waiver fee proposed. If we fail to obtain the required waivers by the requisite debenture holders, or if the waivers are not granted on the terms required for the completion of the Proposed Privatization (in current process of definition), we may need to renegotiate the terms of such required waivers or early redeem certain of those issuances (if permitted), which may affect the timetable for the completion of our Proposed Privatization and materially adversely affect our financial condition and results of operations. In addition, even if the waivers are granted by the debenture holders, in case there is a rating downgrade as a result of our Proposed Privatization this would lead to the early maturity of our debenture issuances.

On March 28, 2024, we sent a notice to the fiduciary agent and to the debenture holders of our 12<sup>th</sup> debentures issuance, requesting the early redemption of the outstanding balance of those debentures by June 3, 2024, pursuant to the terms and conditions described on the indenture.

In addition to the debentures, certain financing agreements also contain change of control provisions that will be triggered if our Proposed Privatization is consummated. We have sent waiver requests to the lenders under these agreements, and we are currently in negotiations to obtain them.

25.1% of our outstanding financing agreements, namely those executed with the IBRD, IDB Invest and JICA, are guaranteed by the Brazilian government with a counter-guarantee from the State of São Paulo. We have sent waiver requests to these lenders, and approvals are conditioned on the maintenance of the counter-guarantees by the Brazilian government and the State of São Paulo. As of the date of this annual report, we already received the waiver from IBRD, which was granted considering the confirmation of our commitment to perform the obligations under the loan agreements and to achieve the objectives of the related projects, and that the change of control will not affect the validity, terms and conditions of the loan agreements and guarantee agreements. As of the date of this annual report, we have not received confirmation of maintenance of the guarantee and counter-guarantees by the Brazilian government and the State of São Paulo, respectively.

Accordingly, if we are unable to obtain the necessary waivers or approvals regarding our Proposed Privatization from the debenture holders or the lenders or if we do not have sufficient funds to prepay certain of our debts prior to the consummation of our Proposed Privatization, these change of control provisions may be triggered, leading to an acceleration, cross-default, cross-acceleration and/or termination, as applicable, of a significant portion of our outstanding debt, which could have a material adverse effect on our financial condition and results of operations. In addition, any change to the structure of our Proposed Privatization, may require us to obtain further waivers in respect of such changes.

Additionally, if there are any changes to the structure of our Proposed Privatization or the terms under which the waiver requests were prepared within the scope of the debenture issuances and financial contracts indicated above, we will have to request new waivers or approvals from the creditors and the debentures holders, considering the new structure. For more information about our indebtedness, see "Item 5.B. Liquidity and Capital Resources-Indebtedness Financing," for more information about our Proposed Privatization, see "Presentation of Financial and Other Information-Proposed Privatization," and for more information about waivers and creditor's approvals, see "Item 5.B. Liquidity and Capital Resources-Indebtedness Financing-Waivers and Creditor's Approvals."

***If our Proposed Privatization includes a primary offering of common shares by us, our current shareholders will experience immediate dilution after the offering. In addition, if our Proposed Privatization is consummated, our bylaws will contain provisions that limit the voting rights of all shareholders, including non-Brazilian shareholders, which could prevent or delay transactions that holders of our shares or ADRs may favor.***

As of the date of this annual report, it has not been decided whether our Proposed Privatization will include a primary offering of common shares and/or ADSs. If our Proposed Privatization includes a primary offering of common shares and/or ADSs by us, our shareholders will experience immediate dilution after the offering to the extent the offering price per ADS is greater than the book value per share of our common shares.

The absence of a single controlling shareholder or group of controlling shareholders may create difficulties for our shareholders to approve certain transactions, because, among other things, the minimum quorum required by law for the approval of certain matters may not be reached. We and our shareholders may not be afforded the same protections provided by Brazilian Corporate Law against abusive measures taken by other shareholders and, as a result, may not be compensated for any losses incurred. Any sudden and unexpected changes in our management, changes in our corporate policies or strategic direction, takeover attempts or any disputes among shareholders regarding their respective rights may adversely affect our business and results of operations.



## Table of Contents

***If our Proposed Privatization is consummated, we will no longer have a controlling shareholder that holds more than 50% of our capital stock, which may make us susceptible to shareholder alliances, shareholder conflicts and other events arising from the absence of a controlling shareholder or a controlling group.***

If our Proposed Privatization is consummated and certain conditions set forth in Law No. 17,853/2023 are fulfilled, the State of São Paulo will no longer hold, directly or indirectly, at least 50% plus one voting common shares representing our share capital. Also, the laws governing our Proposed Privatization provide that the State of São Paulo government will have a golden share. This golden share, which will be exclusively held by the State of São Paulo, will give them veto power over proposed changes to: (i) our name and headquarters; (ii) our corporate purpose of providing water and sewage services; and (iii) any provisions in our bylaws regarding limits on the exercise of voting rights attributed to shareholders or groups of shareholders. For more information, see “Presentation of Financial and Other Information–Proposed Privatization.”

On April 26, 2024, we called an Extraordinary Shareholders’ Meeting to be held on May 27, 2024, to approve changes to our bylaws conditional upon the consummation of our Proposed Privatization. If approved and our Proposed Privatization is consummated, our bylaws will set forth, *inter alia*, an authorized capital provision, the golden share terms and conditions, a provision that will have the effect of avoiding the concentration of more than 30% of our common voting shares in the hands of one or a small group of shareholders, as well as poison pill provisions to be triggered if any shareholder or group of shareholders hold 30% or more of our capital stock, pursuant to the Law No. 17,853/2023 and approved by the CDPED on April 17, 2024.

The absence of a controlling shareholder or control group holding more than 50% of our capital stock may hinder the decision-making procedure within the scope of our corporate activities, giving rise to conflicts between shareholders and other events arising from the absence of a controlling shareholder or control group. In addition, we and our shareholders may have greater difficulties in identifying those responsible for situations of abuse of voting rights and conflicts of interest.

The absence of a controlling shareholder or control group holding more than 50% of our capital stock may leave us susceptible to the emergence of a group of shareholders acting jointly (even if without the execution of a formal shareholders' agreement), which will exercise control and, consequently, have decision-making power over our activities. If this occurs, we may experience instability or suffer sudden and unexpected changes in corporate and strategic policies, including through the replacement of its managers.

Further, if our Proposed Privatization is consummated, we cannot assure you that our current management will be reelected or what changes to our policies and corporate strategy any new management might implement. Any sudden or unexpected instability or change in our management, business plan and strategic direction, or dispute between shareholders concerning their respective rights, may adversely affect our business and results of operations.

### **Risks Relating to Brazil**

***The Brazilian government has exercised, and continues to exercise, significant influence over the Brazilian economy. This influence, as well as Brazilian political and economic conditions, could adversely affect us and the market price of our common shares and ADSs.***

The Brazilian government frequently intervenes in the Brazilian economy and occasionally makes significant changes in policy and regulations. The Brazilian government’s actions to control inflation and other policies and regulations have often involved, among other measures, changes in interest rates, tax policies, price and tariff controls, foreign exchange rate controls, currency devaluation or appreciation, capital controls and limits on imports and exports. Our business, financial condition and results of operations, as well as the market price of our common shares or ADSs, may be adversely affected by changes in public policy at federal, state and municipal levels with respect to public tariffs and exchange controls, as well as other factors, such as:

- expansion or retraction of the Brazilian economy;
- the regulatory environment related to our business operations and concession agreements;
- interest rates and monetary policies;
- exchange rates and exchange controls and restrictions on remittances abroad;
- currency fluctuations;
- increased unemployment;
- availability of credit;

## Table of Contents

- changes in labor and private pensions regulations;
- political elections and social and political instability;
- inflation;
- liquidity of the Brazilian capital and lending markets;
- tax and regulatory policies and laws;
- commodity prices;
- modifications to laws and regulations according to political, social and economic interests;
- import and export controls;
- public debt;
- economic, political and social instability;
- water and electricity shortages and rationing;
- public health, including as a result of epidemics and pandemics, such as the COVID-19 pandemic;" and
- other political, foreign policy, social and economic developments in or affecting Brazil.

Uncertainty as to whether the Brazilian government will implement changes in policy or regulation affecting these or other factors in the future, may affect economic performance and contribute to economic uncertainty in Brazil, as well as higher volatility in the Brazilian capital markets and the securities of Brazilian issuers, which may have an adverse effect on our activities and results of operations, and may also adversely affect the trading price of our common shares and ADSs.

We cannot predict the measures that the Brazilian government will take due to mounting macroeconomic pressures or otherwise. Economic and political instability and uncertainty has led to a negative perception of the Brazilian economy and higher volatility in the Brazilian capital markets and the securities of Brazilian issuers, which may adversely affect us and our common shares and ADSs. For more information, see "Item 3.D. Risk Factors—Risks Relating to Brazil—Ongoing political instability has adversely affected the Brazilian economy and may lead to an economic slowdown, which may have an adverse effect on our financial condition and results of operations." We cannot predict what future policies will be adopted by current or future Brazilian governments, or whether these policies will result in adverse consequences to the Brazilian economy or cause an adverse effect on us.

### ***Changes in Brazilian tax laws or conflicts in their interpretation may adversely affect us.***

The Brazilian government has frequently discussed and implemented various changes to the tax regime, including entering into or modifying tax treaties, that may affect companies and their customers. These changes include changes to the current tax rates, the creation of temporary or permanent taxes and/or the cancellation of benefits in effect, the proceeds of which are allocated to government projects. These changes may result in increases in our tax liabilities, which could adversely affect our profitability and results of operations. In addition, certain tax laws may be interpreted by tax authorities in a way that is controversial. As a result, we may be adversely affected in the event of a different interpretation from the one we currently rely upon to carry out our transactions. We cannot assure that we will be able to maintain our projected cash flows and profitability following any increases in Brazilian taxes applicable to our operations, which may adversely affect our results of operations and financial condition.

Brazil is currently undergoing tax reforms which will significantly impact the business environment, such as the recent constitutional reform of taxes on consumption of goods and services.

On December 15, 2023, the National Congress approved the final wording of Constitutional Amendment Bill (PEC) No. 45/2019, which was enacted on December 20, 2023, as Constitutional Amendment No. 132/2023 ("EC 132"). EC 132 substantially changes the way Brazil taxes goods and services by replacing several of the current "indirect taxes" (ICMS, IPI, ISS and PIS/Cofins) by three new ones: a Goods and Services Tax (IBS), a Contribution on Goods and Services (CBS) and an Excise Tax (IS).

EC 132 will not produce immediate effects, as there is a seven-year transition period, from 2026 to 2032, for the full implementation of the tax reform on consumption taxes. The current indirect taxes (ICMS, IPI, ISS and PIS/Cofins) will coexist and will gradually be replaced by IBS, CBS and IS until completion of the tax reform by 2033.

The next step is the regulation of EC 132 through legislation (complementary and ordinary laws). The Executive Branch must present to the National Congress in the half of 2024 (180 days as of the enactment of EC 132) the bills of law introducing the framework for the new taxes created by the tax reform (IBS, CBS and IS). It is expected that the standard rate for the sum of IBS and CBS, to be generally levied on any type of services and goods (with some limited exceptions), would be around 27%.

## Table of Contents

We also highlight that a tax reform on income and payroll taxation is on the agenda of the Brazilian government. EC 132 provides that the executive branch must submit to the National Congress by the first half of 2024 (90 days as of the enactment of EC 132) bills of law for reforming income and payroll taxation. As of the date of this annual report, the executive branch has not yet submitted the respective bills of law.

An attempt to reform income taxation was submitted through Bill of Law No. 2,337/2021. Although the House of Representatives approved this bill in September 2021, it has since stalled in the Senate. This initiative proposes significant changes to the income tax legislation, such as (i) repealing the exemption from income tax on the distribution of dividends by Brazilian companies (and imposing a general 15% income tax rate), (ii) the gradual decrease of the combined Brazilian corporate income tax rates, and (iii) extinguishing the possibility of deducting expenses from the payment of interest on shareholder's equity (*juros sobre o capital próprio* - JCP). It is likely that the income and payroll taxation reform resulting from EC 132 will foresee similar provisions to those attempted in Bill of Law No. 2,337/2021.

The impacts caused by changes in tax regimes cannot yet be properly measured. There may be an increase in the tax burden on certain sectors and activities, such as basic sanitation, which could impact our business, results of operations and financial condition. We cannot predict the effects of changes in Brazilian tax laws, and if they may have an adverse effect on our business, financial condition or results of operations.

***Ongoing political instability has adversely affected the Brazilian economy and may lead to an economic slowdown, which may have an adverse effect on our financial condition and results of operations.***

Brazil's political environment has historically influenced, and continues to influence, the performance of the country's economy. Political crises have affected and continue to affect the confidence of investors and the general public, which have historically resulted in economic deceleration and heightened volatility in the securities issued by Brazilian companies.

Brazil has experienced amplified economic and political instability, as well as heightened volatility, as a result of several ongoing investigations by national and foreign agencies responsible for corruption and cartel investigations, such as the Brazilian Federal Prosecutors' Office (*Ministério Público Federal* - "MPF"), the Brazilian Federal Police (*Polícia Federal*), the CVM, the U.S. Department of Justice and the SEC, among others. These investigations have negatively impacted the Brazilian economy and political environment and have contributed to a decline in market confidence in Brazil.

Allegations, trials and convictions of Brazilian government and State of São Paulo government officials and senior management of Brazilian companies may lead to political instability and a decline in confidence by consumers and foreign direct investors in the stability and transparency of the Brazilian government and Brazilian companies and may have a material adverse effect on Brazil's economic growth, on the demand for securities issued by Brazilian companies, and on access to the international financial markets by Brazilian companies.

Furthermore, the President has the power to impose policies and issue governmental acts (*Medidas Provisórias*) regarding the Brazilian economy that may affect our operations and financial performance. We cannot predict what policies the President will impose, much less whether such new policies or changes in current policies will have an adverse effect on our business or the Brazilian economy. Additionally, the uncertainties regarding the Brazilian government's ability to implement changes related to monetary, fiscal and social security policies, especially given that the federal legislative branch is currently controlled by opposition parties, may contribute to economic instability. Any difficulty the Brazilian government has in gaining a majority in the National Congress could result in a standoff in the National Congress, political distress and massive demonstrations and/or strikes, which could adversely affect our operations. These uncertainties and any new measures that may be implemented may increase the volatility of the Brazilian securities market.

Historically, political crises have affected investor confidence as well as public opinion, and any of the above factors may create additional political uncertainty, which could harm the Brazilian economy and, consequently, our business, results of operations, financial condition and the trading price of our common shares and ADSs.

***Inflation and the Brazilian government's measures to combat inflation may contribute to economic uncertainty in Brazil, adversely affecting us and the market price of our common shares or ADSs.***

Brazil has historically experienced high rates of inflation and the Brazilian government's measures to combat it have had and may in the future have significant effects on the Brazilian economy and our business, financial condition and results of our operations. Tight monetary policies with high interest rates may restrict Brazil's growth, the availability of credit and our cost of funding. Conversely, other Brazilian governmental actions, including lowering interest rates, intervention in the foreign exchange market and actions to adjust or fix the value of the *real*, may trigger increases in inflation. Brazil's General Price Index (*Índice Geral de Preços - Mercado* - "IGP-M"), used to measure the country's inflation, recorded deflation of 3.18% for the year ended December 31, 2023, inflation of 5.45% for the year ended December 31, 2022 and inflation of 17.78% for the year ended December 31, 2023. The SELIC, the Brazilian federal funds rate and official overnight interest rate in Brazil, was 11.75%, 13.75% and 9.25% in the years ended December 31, 2023, 2022 and 2021, respectively. Since year-end 2023, the SELIC rate has gradually been reduced to 10.75%, where it remains as of the date of this annual report. Inflation, along with government measures to combat inflation and public speculation about possible future government measures, has had significant negative effects on the Brazilian economy, and contributed to economic uncertainty in Brazil and heightened volatility in the Brazilian securities market, which may have an adverse effect on us if such policies are reinstated.

## Table of Contents

The Brazilian annual inflation rates, as measured by the IPCA, were 4.62%, 5.79% and 10.06% in the years ended December 31, 2023, 2022 and 2021, respectively. In 2021, the IPCA reached its highest accumulated annual inflation since 2015, according to data provided by IBGE. In 2022, the accumulated inflation slowed down compared to 2021, and it continued to slow down in 2023. However, the inflation rates in the years ended December 31, 2023, 2022 and 2021 were all above the predetermined and previously announced target ranges, which were 5.31%, 5.03% and 3.32%, respectively. If Brazil once again experiences substantial high inflation or deflation in the future, our business, financial condition or results of operations may be adversely affected, including our ability to comply with our obligations. In addition, a substantial increase in inflation may weaken investors' confidence in Brazil, causing a decrease in the market price of our common shares or ADSs.

***Exchange rate instability and developments and the perception of risk in other countries, especially in the United States and in emerging market countries, may adversely affect us, our foreign currency denominated debt and the market price of our common shares or ADSs and our ability to service our foreign currency denominated obligations.***

Brazil's currency has been characterized historically by high degrees of volatility and has depreciated periodically in relation to the U.S. dollar and other foreign currencies during recent decades. At different points over this period, the Brazilian government has implemented various economic plans and exchange rate policies, including sudden devaluations, periodic mini devaluations during which the frequency of adjustments has ranged from daily to monthly, floating exchange rate systems, exchange controls and dual exchange rate markets.

The current floating exchange rate system has also contributed to significant fluctuations in the exchange rate between the Brazilian currency and the U.S. dollar and other currencies. As of December 31, 2020, the exchange rate was R\$5.19 to US\$1.00, representing a depreciation of 28.9% as compared to the rate prevailing as of December 31, 2019. During 2021, the *real* was very volatile and depreciated by 7.4% against the U.S. dollar by year-end. During 2022, there was an appreciation of the *real* by 6.5% against the U.S. dollar and by 18.4% against the Japanese Yen. As of December 31, 2023, the commercial selling rate as reported by the Central Bank was R\$4.8413 per US\$1.00. As of April 24, 2024, the commercial selling rate as reported by the Central Bank was R\$5.1592 per US\$1.00. There can be no assurance that the *real* will not depreciate further against the U.S. dollar.

Exchange rate fluctuations will affect the U.S. dollar equivalent of the *real* price of our common shares on the B3, as well as the U.S. dollar equivalent of any distributions we make in *reais* with respect to our common shares.

Depreciation of the Brazilian *real* against the U.S. dollar has created inflationary pressures in Brazil and has caused increases in interest rates, which could negatively affect the growth of the Brazilian economy as a whole and harm our financial condition and results of operations, curtail our access to financial markets and prompt government intervention, including recessionary governmental policies. Depreciation of the Brazilian *real* against the U.S. dollar could also lead to decreased consumer spending, inflationary pressures and reduced economic growth.

In the event of a significant devaluation of the Brazilian *real* in relation to the U.S. dollar or other currencies, our ability to meet our foreign currency denominated obligations could be adversely affected because our tariff revenue and other sources of income are denominated solely in *reais*. In addition, because we have debt denominated in foreign currencies, any significant devaluation of the *real* will increase our financial expenses as a result of foreign exchange losses that we must record. This would also increase our total debt, which could lead us to breach any debt/EBITDA covenants we are subject to in certain financings. We had total foreign currency denominated debt of R\$2.7 billion as of December 31, 2023, and we anticipate that we may incur additional amounts of foreign currency denominated debt in the future. In December 2023, our Board of Directors approved our Hedging Policy, which is available on our website but not incorporated herein, and in April 2024, we entered into derivative instruments (plain vanilla swaps), effective from April 2024 until December 2024, to fully protect us against a devaluation of the *real* against the U.S. dollar or the Yen. However, we cannot guarantee that we will be able to renew these derivative instruments in the future or, if we are able to renew them that it would be on the same terms or at a price that is equally as favorable to us.

A devaluation of the *real* may adversely affect us and the market price of our common shares or ADSs. For more information, see Note 5.1(a) to our 2023 Consolidated Financial Statements. Further, the market price of securities of Brazilian companies is affected to varying degrees by economic and market conditions in other countries, including the United States, China and other Latin American and emerging market countries. Although economic conditions in these countries may differ significantly from economic conditions in Brazil, investors' reactions to developments in these other countries may have an adverse effect on the market price of securities of Brazilian issuers. Crises in other emerging market countries or economic policies of other countries may diminish investor interest in securities of Brazilian issuers, including ours. This could adversely affect the market price of our common shares or ADSs and could also make it more difficult for us to access the capital markets and finance our operations in the future, on acceptable terms or at all.

In the past, the adverse development of economic conditions in emerging markets resulted in a significant flow of funds out of Brazil and a decrease in the quantity of foreign capital invested in Brazil. Changes in the prices of securities of public companies, lack of available credit, reductions in spending, general slowdown of the global economy, exchange rate instability and inflationary pressure may adversely affect, directly or indirectly, the Brazilian economy and securities market. Global economic downturns and related instability in the international financial system have had, and may continue to have, a negative effect on economic growth in Brazil. Global economic downturns reduce the availability of liquidity and credit to fund the continuation and expansion of business operations worldwide.

## **Table of Contents**

In addition, global financial crises have caused, and in the future may again cause, significant consequences to Brazil, such as stock and credit market volatility, unavailability of credit, higher interest rates, a general slowdown of the world economy, volatile exchange rates, and inflationary pressure, among others, which may, directly or indirectly, materially and adversely affect us and the price of securities issued by Brazilian companies, including our common shares and ADSs.

***Downgrades in Brazil's credit rating could adversely affect our credit rating, the cost of our indebtedness and the trading price of our common shares and ADSs.***

Rating agencies periodically evaluate Brazil and its sovereign ratings, based on a number of factors, including macroeconomic trends, fiscal and budgetary conditions, debt metrics and the prospect of changes in any of these factors. Downgrades in Brazil's credit rating can lead to downgrades in our credit rating and increase the cost of our indebtedness as investors may require a higher rate of return to compensate a perception of increased risk. Brazil lost its investment-grade status from all three major rating agencies (Standard & Poor's, Moody's and Fitch) in 2015 and, consequently, the trading prices of securities in the Brazilian debt and equity market were negatively affected.

As of the date of this annual report, Brazil's sovereign credit ratings were BB with a stable outlook, Ba2 with a stable outlook and BB with a stable outlook by S&P, Moody's and Fitch, respectively, which is below investment grade.

Any further downgrade in Brazil's sovereign credit rating may increase investors' perception of risk on the country and, consequently, of Brazilian companies (including us), which may increase future funding costs and negatively affect interest and profit margins, impacting the trading price of our common shares and ADSs.

***Brazil's economy is vulnerable to external and internal shocks, which may have a material adverse effect on Brazil's economic growth and on the trading markets for securities.***

Brazil's economy is vulnerable to external shocks, including adverse economic and financial developments in other countries. For example, an increase in interest rates in the international financial markets may adversely affect the trading markets for securities of Brazilian issuers. In addition, a drop in the price of commodities produced by Brazil could adversely affect the Brazilian economy. A decline in the economic growth or demand for imports of any of Brazil's major trading partners could also have a negative impact on Brazil's exports and adversely affect Brazil's economic growth.

In addition, because international investors' reactions to events occurring in one emerging market country sometimes produce a "contagion" effect, in which an entire region or class of investment is disfavored by international investors, Brazil could be adversely affected by negative economic or financial developments in other countries. Brazil has been adversely affected by such contagion effects on several occasions, including following the 1998 Russian crisis, the 2001 Argentine crisis and the 2008 global economic crisis. We cannot assure that any situations like those described above will not negatively affect investor confidence in emerging markets or the economies of Latin America, including Brazil.

Global markets are experiencing volatility following the escalation of geopolitical tensions, in particular in connection with the military conflicts between Russia and Ukraine and also between Israel and Hamas. Economic sanctions imposed by the United States, the European Union, the United Kingdom and other countries as a direct consequence of these conflicts may impact supply chains, lead to market disruptions, including significant volatility in commodity prices and the global financial system, including through credit and capital markets instability.

The escalation of the Russia-Ukraine and Israel-Hamas conflicts may increase geopolitical tensions around the world and cause further disruption to international trade, industrial supply chains and transport, increase market price volatility, which may adversely affect our business and cost of operations, as well as limit our ability to obtain foreign financing to fund our operations and capital expenditures.

Brazil's economy is also subject to risks arising from the development of several domestic macroeconomic factors. These include general economic and business conditions of the country, the level of consumer demand, the general confidence in the political conditions in the country, present and future exchange rates, the level of domestic debt, inflation, interest rates, the ability of the Brazilian government to generate budget surpluses and the level of foreign direct and portfolio investment.

Our operating conditions have been, and will continue to be, affected by the growth rate of gross domestic product ("GDP") in Brazil, because of the correlation between GDP growth and water demand. Therefore, any change in the level of economic activity may adversely affect the liquidity of, and the market for, our securities and consequently our financial conditions and the results of our operations.

***Disruption or volatility in global financial and credit markets could have a material adverse effect on us.***

## Table of Contents

Volatility and uncertainty in global financial and credit markets have generally led to a decrease in liquidity and an increase in the cost of funding for Brazilian and international issuers and borrowers. Such conditions may adversely affect our ability to access capital and liquidity on financial terms acceptable, if at all. If we are unable to access capital and liquidity on reasonable financial terms acceptable to us or at all, our financial condition and results of operations may be adversely affected. In addition, the economic and market conditions of other countries, including the United States, countries in the European Union and emerging markets, may affect the volume of foreign investments in Brazil. If the level of foreign investment declines, our access to capital may likewise decline, which could negatively affect our business, ability to take advantage of strategic opportunities and, ultimately, the trading price of our ADSs.

### Risks Relating to Our Control by the State of São Paulo

***We are controlled by the State of São Paulo, whose interests may differ from the interests of non-controlling shareholders, including holders of ADSs.***

As the State of São Paulo government owns the majority of our common shares, it is able to control the election of a majority of the members of our Board of Directors and appoint our senior management and with that determine our operating policies and strategy. As of December 31, 2023, the State of São Paulo owned 50.3% of our outstanding common shares.

Our operations affect the commercial, industrial, and social development policies promoted by the State of São Paulo, and the State of São Paulo may pursue some of its macroeconomic and social objectives through us. Therefore, we may, subject to legal and bylaws limitations, engage in activities that give preference to the objectives of the State of São Paulo rather than to our own economic and business objectives, which may incur costs or engage in transactions that may not necessarily meet the interest of our other investors. Both through its control of our Board of Directors as well as by enacting State decrees, the State of São Paulo has, in the past, directed our company to engage in business activities and make expenditures that promoted political, economic or social goals, that did not necessarily enhance business, financial condition or results of operations. For example, the State of São Paulo issued Decree No. 64,879/2020 setting out emergency measures as a result of the COVID-19 outbreak, including exempting customers under the “Residential Social” and “Residential Vulnerable” categories from paying water and sewage bills between March and September of 2020, for all municipalities we serve.

As of the date of this annual report, the State of São Paulo has the power to appoint up to 9 out of the 11 members of our Board of Directors and, through them, influence the choice of a majority of the executive officers responsible for our day-to-day management, and consequently, the State of São Paulo is empowered to approve most matters prescribed by law. At our Ordinary General Shareholders’ Meeting held on April 25, 2024, the State of São Paulo appointed 9 out of the 11 elected members, of which 5 members were elected as independent members pursuant to Federal Law No. 13,303/2016 (including the Chairwoman of the Board of Directors).

Additionally, the State of São Paulo government, as our controlling shareholder, may take measures related to business planning, strategies, acquisitions, asset disposals, partnerships, financings or similar transactions, that may be contrary to the interests of other minority shareholders, including ADR holders. However, if our Proposed Privatization is consummated, the interest of the State of São Paulo government will be diluted and the exercise of its voting rights will be limited to only 30% of our voting shares. Also, as provided in State Law No. 17,853/2023, which approved our Proposed Privatization, if our Proposed Privatization is consummated, the State of São Paulo government will be entitled to a preferential share with veto power (referred to as a golden share) over proposed changes to: (i) our name and headquarters; (ii) our corporate purpose of providing water and sewage services; and (iii) any provisions in our bylaws regarding limits on the exercise of voting rights attributed to shareholders or groups of shareholders.

***Our right to withdraw water from the Guarapiranga and Billings reservoirs is being challenged judicially by minority shareholders of EMAE.***

We withdraw water for use in the São Paulo metropolitan region from the Guarapiranga and Billings reservoirs. Empresa Metropolitana de Águas e Energia S.A. (“EMAE”), a company that is also controlled by the State of São Paulo (although it is in the process of being privatized, with a public auction of shares held by the State of São Paulo having already taken place), has a concession to produce hydroelectric energy using water from the same reservoirs. EMAE commenced various lawsuits against us in the past seeking compensation for the water we withdraw from these reservoirs. Those lawsuits have now been settled by way of an agreement between EMAE and our company.

However, on April 11, 2016, we were named in a separate lawsuit filed by minority shareholders of EMAE against the State of São Paulo, as controlling shareholder of EMAE. The minority shareholders are seeking an order to require the State of São Paulo to stop us from withdrawing water from the reservoirs without paying compensation to EMAE, and to allow EMAE to pump water from the reservoirs for its hydroelectric facilities. The plaintiffs allege that the State of São Paulo, in its capacity as controlling shareholder of EMAE, has acted unduly to EMAE’s detriment and in our favor. This lawsuit was dismissed, and an appeal was filed, but the Court upheld the dismissal of the claim stating that the State of São Paulo operated in compliance with the legal system and in the public interest. A further appeal was filed with the higher courts on March 8, 2023. Both the extraordinary appeal and the special appeal were dismissed, and an interlocutory appeal was filed against both decisions. As of the date of this annual report, the lawsuit has been received by the Brazilian Superior Court of Justice (*Superior Tribunal de Justiça* – “STJ”), which has not handed down its judgment.

## Table of Contents

In addition, on August 7, 2017, we were named in a new lawsuit against us, EMAE and the National Electric Energy Agency (*Agência Nacional de Energia Elétrica* - “ANEEL”), brought by Alvaro Luiz de Lima de Alvares Otero, another minority shareholder of EMAE, requesting the annulment of ANEEL’s order approving the settlement agreement mentioned above, as well as our condemnation for indemnifying EMAE for damages suffered by EMAE. The plaintiff alleges that the order is illegal and harmful, jeopardizing the operational viability of the Henry Borden hydroelectric power plant, as well as the energy security of the State of São Paulo, the Southeast region of Brazil and Brazil as a whole. The judge dismissed this lawsuit without judgment on the merits. As of the date of this annual report, we are awaiting judgment of the plaintiff’s appeal.

The settlement agreement between EMAE and us mentioned above does not necessarily terminate the separate lawsuits. If one of the ongoing lawsuits by minority shareholders of EMAE requires the State of São Paulo to make a different decision regarding water use from what was agreed between EMAE and the State of São Paulo, our ability to withdraw water from the Guarapiranga and Billings reservoirs may be compromised. If we were no longer able to withdraw water from these reservoirs, we would have to transport water from locations further away, which would increase our water transportation costs and may affect our ability to provide adequate service in the region, which may have an adverse effect on our financial condition and results of operations. In addition, we may be ordered to pay any indemnity to EMAE if the agreement is judicially invalidated, which could have material adverse effects on our financial condition and operating results. For more information, see “Item 7. Major Shareholders and Related Party Transactions.”

***Transactions with related parties, including as part of our Proposed Privatization, may not have comparable market terms available and may not be entered into on an arm’s length basis, which could expose us to lawsuits and affect our financial results.***

We are a company controlled by the State of São Paulo and certain transactions that we enter into with companies controlled by the State of São Paulo or governmental entities have no comparable market terms available. Additionally, we cannot guarantee that these transactions have been or will be entered into on an arm’s length basis. This risk will remain even after the consummation of our Proposed Privatization because the State of São Paulo will remain our significant shareholder.

Furthermore, we must comply with Brazilian antitrust and competition regulations, as well as with the disclosure requirements of the CVM, the SEC, and the stock exchanges on which our securities are listed. Any noncompliance with applicable requirements relating to related party transactions could adversely affect our financial condition, may result in regulatory penalties and may expose us to lawsuits from third parties.

### Risks Relating to Our Business

***Our current tariff structure is outdated and does not reflect the current socioeconomic changes the State of São Paulo has undergone over the past decades. Any updates to the tariff structure may lead to uncertainties in the market as well as unpredictability about our future revenues.***

Our current Tariff Structure (as defined in “Item 4.B. Business Overview–Tariffs–Tariff Structure”) is based on the pricing regulation approved by State Decree No. 41,446/1996. Accordingly, it no longer reflects the socioeconomic changes the State of São Paulo has undergone over the past decades. Considering the need to adapt to new circumstances, ARSESP accepted our request to update our Tariff Structure to reflect the new consumption profile of our customers. This process was developed in parallel with the Third Ordinary Tariff Revision, both of which were completed in April 2021.

On March 17, 2022, ARSESP published Resolution No. 1,278 relating to the tariff readjustment, which also postponed the adoption of the New Tariff Structure until the resolution of outstanding definitions necessary for its implementation. On March 1, 2023, ARSESP published Resolution No. 1,388 setting out the regulatory agenda for 2023-2024. As part of this agenda, a public consultation was scheduled for the first half of 2024 aiming to implement the postponed New Tariff Structure. However, on April 6, 2023, ARSESP published Resolution No. 1,395 which revoked Resolution No 1,278 and maintained the current Tariff Structure. A new tariff structure may be implemented subject to the views obtained during a public consultation. As of the date of this annual report, we cannot confirm that a new tariff structure will be implemented, or when it would be implemented, and the draft Concession Agreement for URAE-1 expressly maintains the current tariff structure at least until the end of the first tariff cycle of this new agreement (which will be on 2029). For more information, see “Item 4.B. Business Overview–Tariffs–New Tariff Structure.”

We cannot assure what the result of the implementation of the New Tariff Structure will be and if it will have an adverse effect on our business, financial condition or results of operations. For more information, see “Item 4.B. Business Overview–Tariffs–New Tariff Structure.”

***Certain terms of our agreement to provide water and sewage services in the city of São Paulo could have a material adverse effect on us.***



## Table of Contents

The provision of water and sewage services in the city of São Paulo accounted for 45% of our gross operating revenues from sanitation services (excluding revenues relating to the construction of concession infrastructure) in the year ended December 31, 2023.

On June 23, 2010, the State and the city of São Paulo executed a convention agreement (*convênio*) with our intermediation and ARSESP's consent, under which they agreed to manage the planning and investment for the basic sanitation system of the city of São Paulo on a joint basis. In accordance with this convention, we executed a service contract on June 23, 2010, with the State and the city of São Paulo, to provide these services for the next 30 years. Among other principal terms of this service contract, we must transfer 7.5% of the gross revenues we obtain from this contract and subtract (i) COFINS and PASEP taxes, and (ii) unpaid bills for services provided to properties owned by the city of São Paulo, to the FMSAI, established by Municipal Law No. 14,934/2009. For more information, see "Item 7.B. Related Party Transactions—Agreement with the State and the city of São Paulo" for a further discussion of the principal terms of this convention and the service contract we executed in accordance with this convention.

Since the second ordinary tariff revision, which was concluded in 2018 ("Second Ordinary Tariff Revision"), the result of which is published in ARSESP Resolution No. 794/2018, ARSESP is passing-through to the tariffs up to 4% of the municipal revenue that is transferred by us to a legally established municipal infrastructure fund. For more information, see "Item 4.B. Business Overview—Tariffs," especially "Item 4.B. Business Overview—Tariffs—Tariff Readjustment and Revisions."

Prior to May 9, 2018, our tariff had never included any pass-through of amounts related to the transfer of 7.5% of the gross revenues obtained from providing sanitation services in the municipality of São Paulo to FMSAI.

The transfer of 4% of revenues from service providers in different municipalities to municipal funds was subsequently regulated by ARSESP Resolution No. 870/2019, which established the criteria and conditions to permit the transfer of 4% of the revenue from service providers through the tariff, excluding COFINS and PASEP taxes. In addition, for recognition as part of the tariff, municipal funds for environmental sanitation and infrastructure must be established by the municipality through a legal act, which specifies the allocation of resources. For the fourth tariff cycle (2021-2024) ARSESP provided that a 4% limit will apply to transfers to municipal funds and that these transfers must be previously approved by ARSESP and recognized as part of the tariffs.

Considering that ARSESP has limited the pass-through to tariff of values transferred to municipal infrastructure funds to 4%, the mandatory contractual transfer of the remaining 3.5% of the gross revenues (subtracting (i) COFINS and PASEP taxes and (ii) unpaid bills of publicly owned properties in the city of São Paulo) to FMSAI will not be passed through to customers in full and we cannot assure you when and if this will happen and if it may have an adverse effect on our business, financial condition or results of operations.

From 2010 to December 31, 2023, we transferred approximately R\$5.9 billion to FMSAI. For additional information on ARSESP regulations, see "Item 4.B. Business Overview—Tariffs" and "Item 4.B. Business Overview—Government Regulations Applicable to Our Contracts—Establishment of ARSESP."

On July 13, 2021, the city of São Paulo filed a public civil action against us, the State of São Paulo and ARSESP, aiming, in general terms, to discuss the possibility of including the charge to FMSAI in the tariff adjustment provided for in Resolution No. 870/2019, which in practice was already being transferred pursuant to Resolution No. 794/2018. In summary, this public civil action seeks: (i) the recognition of illegality of the transfer of 7.5% of our gross revenue, related to FMSAI, to the water and sewage tariff applicable in the city of São Paulo; (ii) to establish our liability for any damages caused to users affected by ARSESP Resolutions 794/2018 and 870/2019; and (iii) the recognition of the inexistence of liabilities to be paid to us for the transfers to FMSAI made by it since 2010, since they would already be included in the tariff value from the beginning.

On August 19, 2021, the city of São Paulo requested the suspension of the process in view of the ongoing negotiations in search of an amicable solution to the dispute. On September 13, 2021, the suspension of the case for a period of ninety days was granted. On August 15, 2022, the city of São Paulo reported that the settlement negotiations were still ongoing, and, as of the date of this annual report, there have been no further developments.

We have not yet been named and cannot predict the outcome of this proceeding, which, if unfavorable, could have an adverse economic impact on us.

The draft Concession Agreement for URAE-1, which was submitted for Public Consultation No. 01/2024, provides for the full acknowledgment of tariff payments to the FMSAI for the municipality of São Paulo, which means that the 7.5% rate will be recognized in the tariffs. The Public Consultation No. 01/2024 ended on March 15, 2024, and the SEMIL published a report on the contributions on April 30, 2024. See "Presentation of Financial and Other Information—Proposed Privatization" for further information about the contributions for this public consultation, and "Item 4.B. Business Overview—Tariffs—New Tariff Structure" for further information about our tariff structure.

**Any failure to obtain new funding or to comply with covenants in our existing financing agreements may adversely affect our ability to continue our capital expenditure program.**

Our capital expenditure program will require resources of approximately R\$47.4 billion in the period from 2024 through 2028. For the year ended December 31, 2023, we recorded R\$6.3 billion in capital expenditures. We funded and we intend to continue funding these capital expenditures with cash generated by our operations, issuances of debt securities in the domestic and international capital markets as well as borrowings in Brazilian *reais* and foreign currencies. A significant portion of our financing needs is obtained through long-term financing at attractive interest rates from Brazilian federal public banks, multilateral agencies and international governmental development banks. If the Brazilian government changes its policies regarding public financing or amounts available for water and sewage services, or if we fail to obtain long-term financing at attractive interest rates from domestic and international multilateral agencies and development banks in the future, we may not be able to meet our obligations or finance our capital expenditure program, which could have a material adverse effect on our business, financial condition or results of operations.



## Table of Contents

Furthermore, Brazilian public and private financial institutions are legally limited up to a certain percentage of their shareholder's equity to provide loans to public sector entities, including, for example, us. These limitations could adversely affect our ability to continue our capital expenditure program and, consequently, may adversely affect our business, financial condition or results of operations.

Our debt includes financial covenants that impose indebtedness limits, as well as several non-financial covenants, including the pledging of assets, provision of financial statements and audit reports, no rating downgrade event after our Proposed Privatization and compliance with environmental laws and licenses, among others. Our failure to comply with any of these covenants could seriously impair our ability to finance our capital expenditure program, which could have a material adverse effect on us. For more information on these covenants, see "Item 5.B. Liquidity and Capital Resources–Indebtedness Financing–Financial Covenants."

If our Proposed Privatization is completed and we are no longer controlled by the State of São Paulo, we will no longer have access to (i) guarantees for our new debt obligations from the Brazilian government or (ii) financings from certain international multilateral agencies and development banks who only lend to sovereign or quasi-sovereign entities. This could mean that we will not be able to receive financings at the same tenors or interest rates that we have received in the past. Accordingly, if our Proposed Privatization is consummated, our funding costs may increase.

***Any substantial monetary judgment against us or any of our directors and officers in legal proceedings may have a material adverse effect on our reputation, business or operating or financial condition and/or results.***

We are currently a party to several legal proceedings relating to civil, corporate, environmental, labor and tax claims filed against us. These claims involve substantial amounts of money and other remedies. As of December 31, 2023, the total estimated amount of claims related to our legal proceedings was R\$57.1 billion (net of R\$263.8 million in court deposits), including contingent liabilities and remote loss contingencies.

We recognized provisions for all amounts in dispute that represent a present obligation as a result of a past event and where it is probable that there will be an outflow to settle this obligation in the view of our legal advisors and in light of precedents that cover laws, administrative decrees, decrees or court rulings that have proven to be unfavorable. As of December 31, 2023, the total amount of accrued provisions for claims with a probable likelihood of loss was R\$1.8 billion (net of R\$132.8 million in court deposits). As of December 31, 2023, claims classified as contingent liabilities amounted to R\$55.2 billion, of which R\$10.1 billion relate to claims where we classified the risk of loss as possible and R\$45.1 billion relate to claims where we classified the risk of loss as remote. In our financial statements, we only disclose information about contingent liabilities we classified as possible loss and do not record or disclose information related to remote contingencies.

In addition, our provisions do not cover all legal proceedings involving monetary claims filed against us and may be insufficient to cover the amount arising from final unfavorable decisions rendered against us, which may have a material adverse effect on our financial condition, reputation and image. Further, one or more of our directors and officers are and/or may become parties to civil, administrative, criminal or tax judicial, administrative or arbitration proceedings, in which the initiation and/or outcome may adversely affect them and impair their ability to perform their duties with us, which could lead to a material adverse effect on our reputation, business or operating or financial condition and/or results. For more information, see "Item 8.A. Consolidated Financial Statements and Other Financial Information–Legal Proceedings" and Note 20 to our 2023 Consolidated Financial Statements included in this annual report.

***We are subject to anti-corruption, anti-bribery, anti-money laundering, sanctions and antitrust laws and regulations. Our violation of any such laws or regulations could have a material adverse effect on our reputation, our results of operations and our financial condition.***

We are subject to anti-corruption, anti-bribery, anti-money laundering, sanctions, antitrust and other similar laws and regulations. We are required to comply with the applicable laws and regulations of Brazil, and we may become subject to such laws and regulations in other jurisdictions. We may be subject to investigations and proceedings by authorities for alleged infringements of these laws. These proceedings may result in penalties, fines, damages, sanctions or other forms of liability that could have a material adverse effect on our reputation, business, financial condition and results of operations. There can be no assurance that our internal policies and procedures will be sufficient to prevent, detect and timely implement corrective measures in relation to any unlawful and inappropriate practices, fraud or violations by our employees, officers, executives, partners, agents and service providers, nor that any such persons will not take actions in violation of our policies and procedures. We may in the future discover instances in which we have failed to comply with applicable laws and regulations or internal controls. If any such subsidiaries, employees or other persons engage in fraudulent, corrupt or other unfair business practices or otherwise violate applicable laws, regulations or internal controls, we could become subject to one or more enforcement actions or otherwise be found to be in violation of such laws.

## **Table of Contents**

Any violations, whether actual or perceived, by us or any of our employees, directors, officers, partners, agents and service providers of these laws or regulations or our internal policies or procedures could result in penalties, damages, fines and sanctions and represent a material adverse effect on our reputation, business, our ability to obtain financing, our business, financial condition or results of operations.

### ***Our business is subject to cyberattacks and security and privacy breaches.***

Our business involves the collection, storage, processing and transmission of customers', suppliers and employees' personal or sensitive data. We also use key information technology systems for controlling water, sewage and commercial, administrative and financial operations. We may be subject to breaches of the information technology systems we use for these purposes. Experienced computer programmers and hackers may be able to penetrate our network security and misappropriate or compromise our confidential information or that of third parties, create system disruptions, or cause shutdowns. Computer programmers and hackers may also be able to develop and deploy viruses, worms and other malicious software programs that attack our products or otherwise exploit any security vulnerabilities of our products. In addition, sophisticated hardware and operating system software and applications that we produce or procure from third parties may contain defects in design or manufacture, including "bugs" and other problems that could unexpectedly interfere with the operation of the system. Due to the COVID-19 outbreak, we started to use new communication software and systems. However, we cannot assure that these systems adequately protect data and information to avoid confidentiality breaches or that they will not affect our capacity to operate.

The techniques used to obtain unauthorized, improper or illegal access to our systems, our data or our customers' data, to disable or degrade service, or to sabotage systems are constantly evolving, and it may be difficult to detect quickly, and often are not recognized until launched against a target. Unauthorized parties may attempt to gain access to our systems or facilities through various means, including, among others, hacking into our systems or those of our customers, partners or vendors, or attempting to fraudulently induce our employees, customers, partners, vendors or other users of our systems into disclosing usernames, passwords or other sensitive information, which may in turn be used to access our information technology systems. Certain efforts may be supported by significant financial and technological resources, making them even more sophisticated and difficult to detect.

Our information technology and infrastructure may be vulnerable to cyberattacks or security breaches, and third parties may be able to access our customers', suppliers' and employees' personal or proprietary information that are stored on or accessible through those systems. Our security measures may also be breached due to human error, malfeasance, system errors or vulnerabilities, or other irregularities. Any actual or perceived breach of our security could interrupt our operations, result in our systems or services being unavailable, result in improper disclosure of data, materially harm our reputation and trademark, result in significant legal and financial exposure, lead to a loss of customer confidence in our products and services, and adversely affect our business, financial condition or results of operations. In addition, any breaches of network or data security at our suppliers (including data center and cloud computing providers) could have similar negative effects. Actual or perceived vulnerabilities or data breaches may lead to claims against us.

We cannot guarantee that the protections we have in place to protect our operating technology and information technology systems are sufficient to protect against cyberattacks and security and privacy breaches. For more information, see "Item 16.K. Cybersecurity."

### ***Failure to comply with the LGPD or any further privacy and data protection laws enacted in Brazil could adversely affect our reputation, business, financial condition or results of operations.***

We are subject to data privacy laws, such as Law No. 12,965/2014 ("Brazilian Internet Act") and Law No. 13,709/2018 ("Brazilian General Data Protection Law" or "LGPD") and their related regulations, including regulations to be enacted by the Brazilian National Data Protection Authority ("ANPD").

The LGPD, effective from September 18, 2020—excluding its administrative sanctions, which came into effect on August 1, 2021—provides a comprehensive regulation on the processing of personal data in Brazil. It established detailed rules for the collection, use, processing, storage, and disposal of personal data, which is applicable to all economic sectors and the relationships between customers and companies, employees and employers and others where personal data is processed, both in the digital and physical environment.

Additionally, the LGPD established the ANPD, a public administration authority responsible for ensuring, implementing, and supervising compliance with the LGPD. The ANPD responsibilities include: (i) investigation, including the authority to issue regulations, deliberate on the interpretation of the LGPD, and request information from controllers and processors; (ii) enforcement, in cases of non-compliance with the LGPD, through administrative proceedings; and (iii) education, with the responsibility to disseminate information and promote knowledge of the LGPD and security measures.

## Table of Contents

Failure to comply with the LGPD, especially regarding ensuring data subjects' rights, providing clear information about our personal data processing activities, adhering to the original purpose of data collection, observing legal data storage periods, and implementing required security standards, could subject us to the administrative sanctions of article 52 of the LGPD, enforced by the ANPD. These sanctions, which may be applied individually or cumulatively, include warnings, mandatory incident disclosure, temporary blocking or deletion of personal data, suspension or prohibition of data processing activities, daily fines and fines of up to 2% of the company's, group's, or conglomerate's revenue in Brazil for the last fiscal year, excluding taxes, with a maximum of R\$50.0 million per violation.

Moreover, non-compliance with the LGPD and other data protection laws may expose us to liability for material, moral, individual, or collective damages, being subject to risks, such as (i) the filing of lawsuits claiming damages resulting from violations, based not only on the LGPD, but also on other sectorial legislation; and (ii) the application of penalties provided for in the Consumer Defense Code (Law No. 8078/1990) and the Brazilian Internet Act by relevant consumer protection agencies, such as the MPF and the National Consumer Secretariat (*Secretaria Nacional do Consumidor*). Failure to adhere to the LGPD or any privacy laws or regulations also leads to the risk of individual or collective lawsuits and claims for compensation of damages, especially in cases of information security incidents that result in unauthorized access to personal data.

We cannot guarantee that our personal data processing activities will always be secure and will not be subject to fines and other types of sanctions. The application of penalties, publicizing of infractions or obligations to compensate for failures in the protection of personal data or compliance with the LGPD could adversely affect our reputation, and our results and, consequently, the value of our common shares and ADSs.

### ***Our failure to protect our intellectual property rights may negatively impact us.***

We own and license from third parties several intellectual property assets, including trademarks, patents, software, copyrights, and domain names. Therefore, we rely on intellectual property laws and registration authorities in Brazil and abroad, as well as on license agreements, to protect our intellectual property.

Events such as the rejection of patent applications or trademark registrations by the National Institute of Industrial Property ("INPI"), or the unauthorized use or other improper appropriation of our intellectual property assets, especially the "Sabesp" trademark and related brands, can diminish the value of our brands or affect our reputation. Furthermore, we cannot guarantee that the measures taken to protect our intellectual property rights will be sufficient against potential illicit actions by third parties. Similarly, third parties may claim that our products or services, or even our intellectual property assets, violate their intellectual property rights.

Any dispute or litigation related to intellectual property assets, even if it concerns assets of low relevance to our operations, can be costly and time-consuming. Therefore, any situation that affects the protection of our intellectual property assets may have adverse impacts on our business.

### ***Industrial accidents, equipment failure, environmental hazards or other natural phenomena may adversely affect our operations, assets and reputation and might not be covered by our insurance policies.***

Currently, we substantially withdraw our water supply from surface sources from rivers and reservoirs, with a small portion being withdrawn from groundwater. Our reservoirs are filled with impounding water from rivers and streams, by diverting the flow from nearby rivers, or by a combination of both methods. As of December 31, 2023, we had 230 dams for water supply purposes, which are all the dams used as part of our operations.

Our operations may be hampered by numerous factors, including unexpected or unusual geological and/or geotechnical operating conditions, industrial accidents, floods and/or droughts or other environmental occurrences that could result in structural damages and eventually rupture of our reservoirs, dams and other facilities or equipment.

Our water and sewage pipes are susceptible to degradation caused by factors such as aging, intense traffic, interventions resulting from disorderly urban planning and action by other companies, which may provoke accidents in the networks, increasing the risk of physical loss of water and leakage of sewage, which could affect the regular provision of our services, impacting our customers, the society and the environment. Regarding sanitary sewage, our sewage pipes may also be obstructed due to misuse resulting from the improper release of solid waste and rainwater in the sewage systems, which could also lead to the risks mentioned above.

In particular, the increasing degradation of our water sources (*mananciais*) may affect the quantity and quality of water available to meet demand from our customers. For more information, see "Item 4.B. Business Overview—Description of Our Activities—Water Operations—Water Distribution" and "Item 4.B. Business Overview—Description of Our Activities—Sewage Operations—Sewage System."

## Table of Contents

The occurrence of any of these events could lead to personal injury or death, adverse social impacts on the communities located near our facilities, monetary losses and possible legal liability arising from environmental and social damages, other environmental and social damages, the loss of prime materials and damage to our reputation and image. For more information, see “Item 4.B. Business Overview–Water Operations–Water Resources.”

It is not always possible to obtain insurance against all such risks due to the high premiums associated with insuring against them or for other reasons. Moreover, insurance against risks such as water contamination or other problems involving our water supply to customers and for environmental related liabilities and damages as a result of our activities is not generally available to us or to other companies in our industry on acceptable terms. Our insurance will not cover all potential risks associated with our operations and insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. Losses from these events may cause us to incur significant costs that could have a material adverse effect on our financial performance and results of operations. To the extent that we incur losses not covered by our insurance policies, the funds available for sustaining our current operations and for our planned expansion will be reduced. See also “Item 3.D.– Risks Relating to Environmental Matters and Physical and Transition Climate Risks– Noncompliance with environmental laws and environmental liability could have a material adverse effect on us, our reputation and image” and “Item 4.B. Business Overview–Insurance.”

***We cannot guarantee that our third-party suppliers and/or service providers will not become involved in any irregular practices.***

Our internal controls, corporate policies and procedures, Code of Conduct and Integrity and compliance program may not be sufficient to prevent irregularities in the operations of third-party suppliers and/or service providers. We have no control over and cannot guarantee that certain of our third-party suppliers and/or service providers will not experience labor-related issues or issues related to environmental legislation and sustainability and, if such third-party suppliers or service providers do so, we may suffer financial losses, damage to our image and, consequently, reduce the value of our common shares and ADSs.

In addition, if our third-party suppliers and service providers fail to comply with their labor or environmental obligations and laws related to social security and the environment, we may be held subsidiary and/or jointly liable for such non-compliance, which may result in fines, obligation to pay the amounts in question and other sanctions that may substantially and negatively affect us. We may also be held liable for the bodily injury or death of employees of third parties who are providing services to us within our facilities or for environmental damages caused, which may adversely affect our reputation and business.

Furthermore, if our third-party suppliers and/or service providers act in breach of ethical business practices and fail to comply with applicable laws and regulations, such as any laws against child or slave labor or environmental protection, our reputation could be adversely affected, as could negative publicity or the imposition of joint or several liability.

***Our financial and operating performance may be adversely affected by epidemics, natural disasters and other catastrophes.***

Our financial and operating performance may be adversely affected by the outbreak of pandemics, as well as other catastrophes and health epidemics on a regional or global scale. Such outbreaks may result, at different levels, in the adoption of governmental and private measures, including restrictions, as a whole or in part, on the circulation and transportation of persons, goods and services and consequently, in the closure of private establishments and public offices, interruptions to the supply chain, reduction of consumption in general by the population and increased intervention in their economies.

The impact of the COVID-19 pandemic on the global economy and financial markets was significant in 2020 and 2021 and gradually reduced in 2022 and 2023. It also introduced new habits that impacted consumption and, as a result, our business.

Although restrictions imposed to contain the spread of COVID-19 were lifted in 2022, various companies continue to adopt partial remote working regimes. This affected the volume of sales in the commercial, industrial and public categories in 2022, which would have been higher had it not been for the partial remote working policies adopted by these companies. However, in 2023, the volume of sales returned to the normal levels we observed before the COVID-19 pandemic. In addition, the adverse macroeconomic impact of the COVID-19 pandemic in Brazil had a detrimental impact on many parts of Brazilian society and led to increased delinquencies which negatively impacted our results of operations. Our allowance for doubtful accounts decreased by 16.5% for the year ended December 31, 2023 compared to the year ended December 31, 2022, and increased by 21.5% for the year ended December 31, 2022, compared to the year ended December 31, 2021.

Epidemics, natural disasters and other catastrophes may have a negative and significant effect on the world economy and on Brazil’s economy, and include or may include reduction in the level of economic activity; currency devaluation and volatility; increase in the fiscal deficit and constraints to the capacity of the Brazilian government or state governments to make investments and payments and to contract services or acquire goods; delays in judicial, arbitral and/or administrative proceedings; imposition, even if only temporarily, of a more onerous tax treatment of our business activities; decrease the liquidity available in the international and/or Brazilian market; and volatility in the price of raw materials and other inputs, among other effects.

We cannot assure that future events, such as other health catastrophes and epidemics will not result in the spread of contagious viruses that may lead to a renewed imposition of remote work regimes and the closure of non-essential commercial, industrial and public establishments. The occurrence of any of these events and their duration may have material adverse effects on our operating results and financial condition, as well as the trading price of our common shares and ADSs.

## **Table of Contents**

***If we are not successful in addressing issues related to the occupational health and safety of our employees and the facilities where we conduct our activities, our results and operations could be adversely affected.***

Our operations are subject to extensive federal, state and municipal legislation on occupational health and safety, the implementation of which is overseen by government agencies. Failure to comply with these laws and regulations may result in administrative and criminal penalties, as well as legal repercussions in the labor, civil, tax and/or criminal spheres. There is a possibility of accidents involving our employees and outsourced workers if the technical and legal recommendations are not properly adopted.

The provision of sanitation and waste management services, including the handling of chemicals and hazardous waste, involves operational risks such as equipment defects or malfunctions, problems in training professionals, failures and natural disasters and other unexpected occurrences, which may result in accidents involving our employees, or the need to shut down or reduce the operation of our facilities while corrective actions are taken.

We also need to meet a quota for people with disabilities, which varies from 2% to 5% depending on the total number of employees, and we need to adapt our facilities to provide accessibility and reasonable accommodation for these employees. If we do not comply with these quotas, fines may be imposed by the competent authority, in accordance with the Brazilian Law on the Inclusion of People with Disabilities (Law No. 13,146/2015, as amended) and Law No. 8,213/1991, as well as possible legal proceedings filed by labor authorities seeking compliance with said quota and the potential payment of collective moral damages.

***If any of our assets are deemed assets dedicated to providing an essential public service, they will not be available for liquidation and will not be subject to attachment to secure a judgment.***

Regardless of the consummation of our Proposed Privatization, a substantial portion of our assets, including our sewage treatment facilities, could be deemed by Brazilian courts to be related to the provision of essential public services. Accordingly, these assets would not be available for liquidation or attachment. In either case, these assets would revert to the relevant municipalities pursuant to Brazilian law and the applicable program contracts. We cannot assure you that any indemnity we receive for such assets would be equal to the market value of the assets or sufficient to reimburse the investments made by us in such assets, which could adversely affect our financial condition.

***If our Proposed Privatization is completed, we will no longer be a state-controlled company and will be subject to the Brazilian Bankruptcy Law.***

Law No. 11,101/2005, as amended (the "Brazilian Bankruptcy Law") governs judicial recovery, extrajudicial recovery and bankruptcy. The Brazilian Bankruptcy Law states, in article 2, item I, that its provisions do not apply to federal or state government-controlled and mixed capital companies such as us and our subsidiaries. However, the Brazilian Constitution establishes that mixed capital companies, which operate a commercial business, will be subject to the legal regime applicable to private corporations in respect of civil, commercial, labor and tax matters (article 173, item II, of the Brazilian Constitution). The discussion about the application of the Brazilian Bankruptcy Law to state-controlled companies (including mixed capital companies) is currently subject to the Extraordinary Appeal No. 1,249,945/MG with the Brazilian Supreme Court (*Supremo Tribunal Federal* - "STF"). The Extraordinary Appeal discusses the constitutionality of article 2, item I, of the Brazilian Bankruptcy Law, which excludes public companies, even those that carry out economic activities in the strict sense of the word, in competition with the private sector, from the legal regime of judicial and extrajudicial reorganization and bankruptcy, given the provisions of article 173, paragraph 1, item II, of the Brazilian Constitution. The Extraordinary Appeal had its general repercussion declared, but its merits are still pending judgment by the STF. Thus, we cannot assure whether the provisions relating to judicial and extrajudicial recovery and liquidation proceedings of the Brazilian Bankruptcy Law would apply to us.

If the Proposed Privatization is consummated, we will no longer be a state-controlled company and, in principle, would be subject to the Brazilian Bankruptcy Law.

***Strikes, work stoppages or labor unrest by our employees or by the employees of our suppliers or contractors could adversely affect our business.***

As of the date of this annual report, approximately 65% of our employees were labor union members and, in accordance with Brazilian law, all of our employees were represented by labor unions, regardless of their filiation to the labor union. We face strikes and work stoppages from time to time. Disagreements on issues involving our Proposed Privatization, changes in our business strategy, reductions in our personnel, as well as potential employee contributions and benefits, could lead to labor unrest. We cannot ensure that future strikes or work stoppages will not affect our operations or administrative routines or will not affect our Proposed Privatization.

## **Table of Contents**

Strikes, work stoppages, or other forms of labor unrest at our company or our subsidiaries or any of our major suppliers, contractors or their facilities could impair our ability to complete major projects and adversely impact the results of our operations, financial condition, and ability to achieve our long-term objectives. For further information regarding strikes, labor unions and work stoppages, see “Item 6.D. Directors, Senior Management And Employees –Employees.”

***If we do not remedy the material weakness in our internal controls, the reliability of our financial statements may be materially affected.***

Our management is responsible for establishing and maintaining adequate internal control over financial reporting and for evaluating and reporting on the effectiveness of our system of internal control. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with IFRS Accounting Standards. As a public company, we are required to comply with the Sarbanes-Oxley Act and other rules that govern public companies. In particular, we are required to certify our compliance with Section 404 of the Sarbanes-Oxley Act, which requires us to furnish annually a report by management on the effectiveness of our internal control over financial reporting. In addition, our independent registered public accounting firm is required to report on the effectiveness of our internal control over financial reporting.

A “material weakness” is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements would not be prevented or detected on a timely basis. In the course of completing our assessment of internal control over financial reporting as of December 31, 2023, we did not design nor maintain effective internal control over our financial reporting because a material weakness in internal control over financial reporting was identified as of that date related to an inadequate function in our revenue billing system, which allowed the direct insertion and execution of scripts in our Information Technology (“IT”) production environment, and allowed users with administrative access to change file data during the file transfer interface (FTP) from the revenue billing system to the accounting system without adequately designed and implemented segregation of duties controls. This material weakness could have resulted in undue changes to our billing system, potentially compromising the integrity and reliability of the related interfaces between the revenue billing system and the accounting system.

Our internal controls department is responsible for overseeing the implementation of action plans and reports periodically to the Board of Directors and the Audit Committee. If our future efforts are not sufficient to remedy all the inconsistencies identified, we could continue to experience material weaknesses in our internal controls in the future. Any such material weaknesses could adversely affect our ability to accurately prepare our financial statements, which may result in a restatement of our historical financial statements or in misstatements in our future financial statements and, consequently, adversely affect our business and financial condition. See “Item 15–Controls and Procedures” for further details.

### **Risks Relating to Suppliers**

***Any interruptions in the supply of electricity and water may adversely affect our operations.***

Electricity and the price we pay for it have a significant impact on our operating results. Any material interruptions in the supply of energy could have a considerable negative effect on our activities, financial condition, results of operations and prospects.

The Brazilian power generation system is based on hydro, thermal, wind and solar energy, with the majority of energy being produced by hydroelectric powerplants. Although Brazil recorded the lowest volume of rainfall in 91 years in 2020 and 2021, in 2022 and 2023, the El Niño phenomenon reversed the water crisis experienced in prior years and produced the best reservoir storage in the last 14 years. Nevertheless, it is not possible to predict rain patterns in the future. Increases in the price of energy could have a material impact on our business, financial condition, or results of operations. Moreover, electricity shortages could lead to instability in water supply and sewage collection and treatment services, which could adversely affect our reputation and operations. Additionally, as one of the largest electricity consumers in the State of São Paulo, a potential increase in electricity tariffs due to a shortage of hydroelectric power could have a significant financial impact on us.

Finally, adverse weather conditions and continuous droughts can interrupt the electricity supply and may impact our distribution of water and prevent us from providing water to our customers and perform our obligations in accordance with the terms of our concession agreements. For more information, see “Item 4.B. Business Overview–Energy Consumption.”

***Our business may be adversely affected by reliance on services and products from third-party suppliers.***

We rely on third parties to supply services, products and equipment used in our facilities. If these third parties fail to comply with deadlines or contractual conditions, we may be adversely affected by any delays or higher costs and penalized for any resulting failure by us to perform a necessary service to the population. If we have to turn to other suppliers to cover any shortfall, changes in market conditions may significantly increase the cost of projects or operations, making them unfeasible, which may have an adverse effect on our results of operations and financial results.

The ability of these third parties to fulfill their obligations may be adversely affected by financial or economic crises or other factors. In addition, several supply chain risks, such as strikes or lockouts, loss of or damage to equipment or its components while in transit or storage, natural disasters, contagious diseases that prevent free circulation, or war, may limit the supply of products and/or equipment used in our operations and facilities. Further, the imposition of the Universalization Targets for water supply and sanitary sewage set out in the New Legal Framework for Basic Sanitation may adversely affect the availability of third party services and the supply of products and equipment as the entire sanitation industry is looking to comply with these targets.

## **Table of Contents**

In some cases, there are only a few suppliers for products we use, such as chlorine, sodium hypochlorite, ferric chloride, and fluosilicic acid. There are also highly specialized suppliers for information systems platforms that we use in our commercial, financial and administrative processes.

If any supplier discontinues the production or sale of its products and services, we may not be able to purchase these products and services from other suppliers for the same price or on the same terms. In this case, the provision of our services or our ability to maintain our commercial, financial and administrative processes may be significantly jeopardized, which could adversely impact our financial condition and results of operations. Additionally, the Universalization Targets for sanitation could lead to a shortage of raw materials and affect the capacity of current hydrometer suppliers to meet our future demand.

### **Risks Relating to Our Clients**

*We are owed some substantial unpaid debts. We cannot assure you as to when or whether we will be paid.*

Historically, the State of São Paulo and some State entities have delayed payment of substantial amounts related to water and sewage services owed to us. As of December 31, 2023, the State of São Paulo owed us R\$120.4 million for water and sewage services. Additionally, the State of São Paulo also owes us substantial amounts related to reimbursements of state-mandated special retirement and pension payments that we make to some of our former employees for which the State of São Paulo is required to reimburse us.

With respect to payment of pensions on behalf of the State of São Paulo, we had a contested credit of R\$1.5 billion as of December 31, 2023 recorded in the line item “disputed amount.” We do not record this contested amount as a reimbursement credit for actuarial liability due to the uncertainty of payment by the State of São Paulo, considering that the amount is under judicial discussion in a civil lawsuit filed on November 9, 2010 against the State of São Paulo. We also had an uncontested credit of R\$1.0 billion which is recorded as related-party receivables, recorded in the line item “undisputed amount.” For further information, see Note 11(a) to our 2023 Consolidated Financial Statements.

In addition, as of December 31, 2023, we recorded a provision for an actuarial liability of R\$2.1 billion with respect to future supplemental pension payments for which the State of São Paulo does not accept responsibility. For further information, see Note 11(v) to our 2023 Consolidated Financial Statements.

In addition, certain municipalities and other government entities also owe us payments. We cannot assure you when or if the State of São Paulo and such municipalities will pay the contested credits, which are still under discussion, and the remaining overdue amounts they owe us. The amounts owed to us by the State of São Paulo, municipalities and other government entities for water and sewage services and reimbursements for pensions paid may increase in the future, given that we are currently making some payments on behalf of the State of São Paulo. For further information, see “Item 7.B. Related Party Transactions—Agreements with the State of São Paulo.”

### **Risks Relating to Our Management**

*We depend on the technical qualifications of the members of our management, and we cannot guarantee that we will be able to maintain them or replace them with suitable individuals.*

Part of the success of our operations and the implementation of our strategy depends on the knowledge, skills and efforts of our management and certain key employees. If the members of our management or key employees choose to no longer participate in the management of our business and/or resign, we may not be able to find skilled professionals to replace them. The New Legal Framework for Basic Sanitation established that by 2033 the Universalization Targets must be met. The increase in companies operating in our industry as a result of the New Legal Framework for Basic Sanitation, may lead members of our management or other professionals to leave us. The loss of members of management and key employees, as well as the difficulty in hiring professionals with similar expertise and experience could have a negative effect on our results of operations, financial condition and our reputation.

### **Risks Relating to the Regulatory Environment**

*Pursuant to the New Legal Framework for Basic Sanitation, ANA will be responsible for issuing reference standards. Any non-compliance will prevent municipalities or operators from accessing financings and public resources managed or operated by the Brazilian government.*

According to Federal Law No. 11,445/2007 and Federal Law No. 9,984/2000, both modified by the New Legal Framework for Basic Sanitation on Federal Law No. 14,026/2020, ANA can issue reference standards (guidelines) for how subnational regulatory agencies should regulate certain topics in the sector. Consequently, ANA's reference standards can apply to the basic sanitation sector nationwide, setting the guidelines for regulation and supervision by the regulatory entities at the state, municipal, and district levels, and ensuring regulatory uniformity in the sector and legal certainty for the provision and regulation of the service.



## Table of Contents

Nevertheless, the application of the reference standards is not mandatory *a priori*. The New Legal Framework for Basic Sanitation provided that the access to financing and public resources managed or operated by the Brazilian government depends on compliance with the reference standards, by the sanitation service titleholders, service providers, and the subnational regulatory agencies, such as ARSESP. Accordingly, there is an incentive for adherence to these reference standards.

Moreover, Federal Decree No. 11,468/2023 created the National Secretariat for Environmental Sanitation, linked to the Ministry of Cities, with several competences, including: (i) coordination of the implementation of the Federal Basic Sanitation Policy in Brazil; (ii) proposition of national guidelines for financing the sanitation sector; and (iii) definition of guidelines for the preparation of reference standards.

Non-compliance by any municipalities with the reference standards could adversely affect our activities, especially as we and any non-complying municipalities would be prevented from accessing public resources from the Brazilian government.

***The regionalization of services, established in the New Legal Framework for Basic Sanitation, may have an adverse effect on our business, financial condition or results of operations.***

The New Legal Framework for Basic Sanitation created mechanisms to encourage the creation of clusters of municipalities to plan and procure sanitation services as a group, with the aim of ensuring gains in scale and cross-subsidizing tariffs. In this sense, the New Legal Framework for Basic Sanitation establishes that the access to public resources from the Brazilian government by municipalities and operators is conditional upon the creation of regionalized structures, with governance rules, and the effective adhesion of municipalities to the region. Federal Decree No. 11,599/2023, published on July 12, 2023, provides that the adhesion to the regionalized governance structures must be completed within 180 days from the date of their establishment by the municipalities.

Regionalized structures include regional units and reference blocks, as well as micro-regions, urban agglomerations, metropolitan regions and public consortiums, among others. The New Legal Framework for Basic Sanitation provides that each state had one year since it came into force to regionalize the services through one of those structures.

In the State of São Paulo, State Law No. 17,383/2021 created four URAEs. This law defines that municipalities must join the URAEs within 180 days from its publication, in accordance with Federal Decree No. 11,599/2023. In December 2021, State Decree No. 66,289/2021 set January 1, 2022 as the deadline for the municipalities to adhere to the URAEs, which has been subsequently extended to February 15, 2023 by the State Decree No. 67,880/2023, published on August 15, 2023, for 180 days from its publication. The State Law No. 17,583/2023, that approved our Proposed Privatization, included new municipalities to URAE-1. As of the date of this annual report, 371 out of 375 (disregarding Olímpia) municipalities in which we operate have adhered to URAE-1.

Failure by the municipalities to adhere to the URAE-1 may adversely affect our business, financial condition, or results of operations, since we and non-adherent municipalities will not have access to federal financing.

The proposed Concession Agreement for URAE-1 to be signed between us and URAE-1 after the completion of our Proposed Privatization was subject to a public consultation held by the SEMIL. This public consultation ended on March 15, 2024, and the SEMIL published a report on the contributions on April 30, 2024. For more information, please see “Presentation of Financial and Other Information–Proposed Privatization” and “Item 3.D. Risk Factors–Risks Relating to Our Proposed Privatization.”

***The New Legal Framework for Basic Sanitation prohibits new program contracts for basic sanitation services, resulting in uncertainties for our current and future customer base and size of operations.***

The New Legal Framework for Basic Sanitation prohibits the provision of sanitation services by any bodies or entities of Public Administration, at Federal, State, District, and Municipal levels, through program contracts, covenant, partnership agreement, or other instruments of a precarious nature.

The program contracts that were executed prior to the New Legal Framework for Basic Sanitation and comply with Law No. 11,445/2007 will remain in effect until the end of their contractual term as long as they are amended to reflect the new targets for the universalization of services provided by the New Framework for Basic Sanitation. As confirmed by ARSESP on March 28, 2022, we proved our economic and financial capacity to fulfill the Universalization Targets by 2033, as required by the New Legal Framework for Basic Sanitation, amending the existing program contracts to comply with the new targets imposed by the New Legal Framework for Basic Sanitation.

Accordingly, once our program contracts terminate, we will be required to participate in a bidding process to continue to provide the services previously provided under these program contracts. Also, in the event our program contracts are replaced by the Concession Agreement for URAE-1, valid until 2060, as a result of our Proposed Privatization (which will not require bidding process), once this concession agreement terminates, we will also be required to participate in a bidding process to continue to provide the same services. If we are not successful in such bidding processes, our customer base and size of operations may be reduced, which may adversely affect our operations.



## Table of Contents

For more information about our Proposed Privatization, please see “Item 3.D. Risk Factors—Risks Relating to Our Proposed Privatization—If our Proposed Privatization is consummated, the State of São Paulo will no longer be our majority shareholder, which brings uncertainties that are beyond our control regarding the maintenance of our current program contracts.”

***Municipalities may terminate contracts before they expire in certain circumstances. The indemnification payments we receive in such cases may be less than the value of the investments we made, or may be paid over an extended period, adversely affecting our business, financial condition, or results of operations.***

Municipalities have the right to terminate our contracts early if we fail to comply with our contractual or legal obligations (forfeiture or “*caducidade*”), including in the event of non-compliance with the Universalization Targets, or if the municipalities decide to resume the services based on public interest (*encampação*). In the first scenario (*caducidade*), indemnification will be guaranteed to us for any assets not amortized or depreciated, but will only be paid following a contract termination administrative process, in which we will have the opportunity to present our defense for maintaining the contract and discuss the amount to be paid as compensation for the unamortized assets. It is not possible to predict how long such an administrative process will take, nor whether we will receive the compensation we believe we are owed. In addition to the forfeiture penalty, other penalties may be applied, such as the suspension of the right to participate in bidding process or enter into public agreements with the government, including public entities other than the one that imposed the sanction. In the second scenario (*encampação*), indemnification must be paid prior to the contract termination, and it will also cover any assets not amortized or depreciated. In this case, the municipality must demonstrate that it is no longer in the public interest to continue the concession contract through the approval of a specific local law.

In either case, public entities will be obligated to indemnify us for the investments related to any assets not amortized or depreciated. The New Legal Framework for Basic Sanitation assigns ANA the authority to issue a reference standard regarding the methodology for calculating indemnities for investments made and not yet amortized or not depreciated. On August 4, 2023, ANA published Resolution No. 161/2023, that approved Reference Norm No. 3, which provides for this methodology. However, considering that ARSESP may or may not incorporate the reference norms in its regulatory framework, as explained above, ARSESP has published Public Consultation No. 07/2023 aiming to define its methodology on this point. The comment period for Public Consultation No. 07/2023 finished on November 10, 2023, and on April 16, 2024, ARSESP published Resolution No. 1,515/2024, which established the methodology and criteria for the reversal and possible indemnification of assets at the end of the concessions in the sanitation sector (water supply and sewage services) in the State of São Paulo under the supervision and regulation of ARSESP.

We cannot prevent any municipalities from terminating our contract before the contractual expiration date based on the events above described. If this occurs and we do not receive adequate indemnification for our investments, or the indemnification is paid over an extended period, our business, financial condition, or results of operations may be materially adversely affected. We also cannot predict the effects that ANA or ARSESP’s methodology may have on our business, as it is possible that the indemnification payments may be lower than the remaining value of the investments we made. Further, once the methodology is determined, municipalities may also refuse to make indemnification payments voluntarily, potentially leading to judicial disputes. In case of judicial disputes, there is a risk that the judicial decision will consider the indemnification as undue or that it would be set at a lower value than the investments we already made. Finally, it is important to highlight that we are a party to proceedings related to indemnification issues regarding the resumption of water supply and sewage collection services by certain municipalities. For more information, see “Item 3.D. Risk Factors—Risks Relating to Our Proposed Privatization—If our Proposed Privatization is consummated, the State of São Paulo will no longer be our majority shareholder, which brings uncertainties that are beyond our control regarding the maintenance of our current program contracts” and Note 20 to our 2023 Consolidated Financial Statements included elsewhere in this annual report.

***We cannot guarantee compliance with the new Universalization Targets for reasons beyond our control, based on the guidelines outlined in the New Legal Framework for Basic Sanitation and the State Law that authorized our Proposed Privatization.***

The New Legal Framework for Basic Sanitation set a target of December 31, 2033 for the universalization of water and sewage services in Brazil. Nevertheless, State Law No. 17,853/2023, which authorized our Proposed Privatization brought these targets forward to December 31, 2029.

In addition to anticipating the universalization deadline, rural areas and consolidated informal centers were included in our service area. The terms of the Concession Agreement for URAE-1, which was the subject of Public Consultation No. 01/2024, also introduced a new set of targets to be achieved simultaneously. Compliance with the new set of targets will be monitored on an annual basis, unlike under the previous model where the targets were verified in periods ranging from 4 to 5 years.

Under the current proposed model, compliance with the targets will be monitored and, if these targets are not met, it could lead to a reduction in the tariff adjustment index (*Índice de Reajuste Tarifário* - IRT) through the application of Factor U. The Public Consultation No. 01/2024 ended on March 15, 2024, and the SEMIL published a report on the contributions on April 30, 2024. See “Presentation of Financial and Other Information—Proposed Privatization” for further information about the contributions for this public consultation, and “Item 4.B. Business Overview—Tariffs—New Tariff Structure” for further information about our new tariff structure.

## Table of Contents

Although much of the effort to achieve these objectives falls on us, there are imponderable elements that are beyond our control, and which could affect our ability to achieve these targets – such as, for instance, delays in issuing environmental licenses and municipal authorizations to carry out construction works, processes for vacating areas of interest, the possible finding of archaeological sites, among others –, which could materially adversely affect our business, financial condition, or results of operations.

***If the water from our water sources (mananciais) does not meet our water treatment conditions, we may have to interrupt the water treatment process until we are able to treat the water or to substitute the supply of water from another water source.***

Our water supplies are potentially subject to contamination by sewage infiltration into our water distribution networks, which can alter their quality. If this occurs, we do not distribute the contaminated water and maintenance and disinfection is carried out in the distribution network, which generates additional costs for our business.

In addition, water sources may possibly be contaminated by third parties through irregular or accidental dumping of large quantities of contaminating products that affect the final quality of the water. We seek to mitigate this risk through continuous monitoring of our water sources, in addition to our own water treatment systems at our treatment plants, which have technology and tools to detect and act to prevent the distribution of water that does not meet the required standards. All of our concessions are insured against operational risks and damage to third parties arising from this type of event.

Risks of contamination in our distribution system include failures in the maintenance procedures of our networks, which may eventually carry undesired material to the supply networks if not correctly carried out. If we are found to be liable for consequences of water contamination arising out of human exposure to hazardous substances in our water supplies or other damage, we would be subject to administrative, civil and/or criminal enforcement actions, litigation and other proceedings or obligations to recover the environmental damages and indemnify the persons that were affected by the contamination, and we would also suffer adverse reputational impacts. Proceedings for the management of environmental contamination, redressing of environmental damages or indemnification of the affected population usually involve significant costs and may last several years. Additionally, claims or complaints from residents or communities located around our sites may have adverse effects on our business and reputation. Occasionally, residents or communities may have claims or complaints against us if they believe that our activities may be harming their health or well-being. If we are unsuccessful in adequately managing these claims or recommendations, they may be referred to the environmental authorities or may be the subject of legal (civil and/or criminal lawsuits) or administrative proceedings, which could affect our operating and financial results, as well as our image.

Furthermore, cleaning up water sources can be very expensive and if we are required to do so, it could have a material and adverse effect on our business, operating results and financial condition. In the event that our water supply does not meet treatment conditions, we may have to interrupt or stop the use of that water supply until we are able to treat the water or to substitute the supply of water from another water source. We may incur significant costs in order to adapt the treatment of raw water (through expansion of current treatment facilities or development of new treatment methods), use water from a more distant water source, and if there is a need to interrupt the water supply, we will need to warn our consumers. Using a new water source is generally associated with increased costs compared to an existing water source and as indicated above.

Additionally, the increase in the population density of the contributing basins is also another factor that can lead to a reduction in the quantity of raw water. Any reduction in the amount of raw water available to us can have a negative effect on our financial results and activities.

Water and sewage treatment involve environmental risks in the event there is a system failure. For example, if there is an overflow in a sewage treatment plant, the sewage could impact neighboring areas or even natural water resources, which could have a material adverse effect on our reputation, financial condition and results of operations. In addition, sludge, a byproduct of the sanitation process, needs to be disposed of appropriately in order to prevent harm to the environment. In some cases, the landfills in which the sludge is deposited are not located in the same municipalities as the water and sewage treatment facilities and, therefore, we are required to transport the sludge to the closest landfill, which increases the risk of contamination. Furthermore, some landfills may stop operating, which may increase our operating costs. These events could also lead to environmental liabilities in the administrative, criminal and civil spheres, as mentioned above.

Any of the above events could have a material adverse effect on our financial condition, results of operations, cash flow, liquidity, and reputation.

***Risks associated with the collection, treatment and disposal of wastewater and the operation of water utilities may impose significant costs that may not be covered by insurance, which could result in increased insurance premiums.***

The wastewater collection, treatment and disposal operations of our utilities are subject to substantial regulation and involve significant environmental risks. If collection or sewage systems fail, there are pipe leaks, bursts, overflow or our systems do not otherwise operate properly, untreated wastewater or other contaminants could spill onto nearby properties or into nearby streams and rivers, potentially causing damage to persons or property, injury to the environment including aquatic life and economic damages, which may not be recoverable in rates. This risk is most acute during periods of substantial rainfall or flooding, which are the main causes of sewer overflow and system failure.

## Table of Contents

Liabilities resulting from such damage could adversely and materially affect our business, results of operations and financial condition. In the event that we are deemed liable for any damage caused by overflow, losses might not be covered by insurance policies, and such losses may make it difficult to secure insurance with the same coverage and insured amounts in the future at acceptable insurance premium rates. Similarly, any related business interruption or other losses might not be covered by insurance policies, which would also make it difficult for us to secure insurance in the future at acceptable insurance premium rates.

We may also incur liabilities under environmental laws and regulations requiring investigations and recovery of environmental contamination at our properties or at off-site locations where there have been adverse environmental impacts. The discovery of previously unknown conditions, or the imposition of cleanup obligations in the future, could result in significant costs, and could adversely affect our reputation and financial condition, results of operations, cash flow and liquidity. Such remediation losses may not be covered by our current insurance policies, or the insured amount may not be sufficient and may make it difficult for us to secure the coverage as part of insurance policies in the future at acceptable insurance premiums with similar types of coverage and amounts.

We cannot guarantee that our existing insurance policies are adequate and sufficient for all circumstances that may arise, or against all inherent risks and amounts of damages that may occur. We cannot guarantee that we will be able to renew our existing insurance policies, and if they are renewed, we cannot guarantee that it will be renewed under the same conditions and coverage originally purchased, or at reasonable commercial rates, or on acceptable terms, whether in terms of costs or coverage. The occurrence of a significant uninsured or uninsurable loss, in part or in full, or the failure of our subcontractors to comply with their indemnity obligations, may adversely affect our operations and our reputation.

***We are exposed to risks of delays or failures in payments associated with the provision of water and sewage services.***

Based on our contracts, we must meet certain service provision targets and continue to provide water supply and sewage services to clients with overdue payments and who may not perform regular payments. In those cases, we cannot assure when the payments will be made in return for the services provided, at the same time we are subject to significant charges related to the provision of water supply and sewage public services, such as those related to the water abstraction or to the discharge of sewage into the water resources, and there is a risk that such charges may not be fully passed-on to our customers.

The tariffs charged by us may not be increased in line with the relevant charges or inflation adjustments and operating expenses, including taxes, or may not be increased in a timely fashion, due to legal and contractual restrictions that prevent us from passing on to our customers any increases in our cost structure.

***Our water loss and other operational metrics indicate that we will need to make investments in our infrastructure. If any such investments are insufficient in adequately reducing water loss rates, this could have a material adverse effect on us.***

Reducing levels of physical water losses (caused by leaks and overflows) depends mainly on investments made in identifying and repairing leaks, managing pressure in distribution networks and operational improvement programs and renewal of the distribution network. Reducing levels of non-physical water losses (which result from unauthorized consumption (theft) or inaccurate measurement) depends mainly on investments made in the acquisition and installation of water meters, the re-registration of customers and combat of irregularities, such as illegal water connections. If we do not make sufficient investment in activities and projects to reduce our levels of water loss, we could be materially and adversely affected. These investments must mainly be aligned with the goals established in contracts with municipalities and the ideal levels of losses in supply systems.

Furthermore, the New Legal Framework for Basic Sanitation establishes, among other things, that providers of public water supply and sewage services must meet qualitative and quantitative targets. Among these targets is the reduction of losses in the distribution of treated water. If we do not implement the necessary actions to reduce the loss rates, or if the projects aimed at reducing water loss levels do not produce satisfactory results, our cash flow, operating income and financial situation could be adversely affected. For more information about the New Legal Framework for Basic Sanitation, see “Item 4.B. Business Overview– The Basic Sanitation Law and the New Legal Framework for Basic Sanitation.”

***Securing new concessions, new public-private partnerships and new acquisitions involve risks related to the integrations of the adjudicated or acquired businesses, the situation of the assets and the regularity of the operations related to the concessions.***

There may be risks related to the new concessions, new public-private partnerships and to the contracts held by us, such as: (i) the assets related to the contract may be different from the description provided in the public bidding documents, in the public-private partnership contracts and in the other contracts; (ii) the absence of and/or the irregularity of required environmental licenses; (iii) the absence of grants for the operation of wells; or (iv) land irregularities.

In addition, we may face difficulties transferring the assets related to the contracts, or they may be in a bad state, which may result in the need to incur additional investments. These irregularities make it difficult to enter or prevent us from entering into financing agreements with financial institutions, which may compromise the achievement of the targets originally included in our contracts.

## Table of Contents

Additionally, in the case of companies acquired by us, there may be delays in obtaining the consent of the granting authority or their creditors in order to confirm the change of control or we may not obtain such consents at all.

### ***Risks related to encumbrances, which may adversely affect us in the event of default on the obligations guaranteed by our properties.***

There may be risks in relation to some of our properties subject to encumbrances and legal restrictions, such as unavailability and easements (right-of-way).

According to real estate record certificates, we believe that some properties are burdened with unavailability, a judicial measure that imposes significant restrictions on certain assets. Its purpose is to prevent the debtor from dissipating his assets or asset squandering while the judicial process is not concluded. Although the ownership of the assets remains with the defendant, the exercise of some powers and privileges normally associated with property rights (e.g. alienation or encumbrance) will only be possible with the prior authorization of the same court that determined the unavailability.

Non-payment of the amounts that generated the unavailability may lead to the forced sale of the properties, and the proceeds of any sale would be used to pay the outstanding debts. In these cases, the new owners of the properties may seek possession of the assets, which could lead to the need to relocate the activities carried out in these locations.

Additionally, some of the properties are encumbered by easements. In case the existing easements are not being respected, the respective beneficiaries can demand that their area be vacated and enforce the real right of such easements, as well as the losses and damages incurred.

### ***We may not be able keep in force or timely renew all permits and/or licenses for use and operation necessary for the development of our activities.***

We may not be able to keep in force or renew with the appropriate public authorities all permits and/or licenses for use and operation necessary for the development of our activities, which are issued by the municipalities' mayor offices, by the appropriate fire department and by the responsible environmental authorities.

If we are unable to obtain or renew such permits, we may be subject to fines and the closing of any irregular facilities, with the interruption of the activities carried out by us at such facilities. Any factors that impact the failure to obtain or renew such licenses and permits may cause us to incur additional costs, which may force us to reallocate resources to meet any additional charges. Failure to obtain, maintain or renew environmental licenses and authorizations may also lead to environmental, administrative or, criminal or civil liabilities.

Additionally, we cannot guarantee that licenses, permits, licenses and authorizations, such as use and operating permits and/or documents relating to the regularity of built-up areas, have not been breached in the past when in the process of obtaining or renewing them. For example, the existence of a built-up area without prior authorization from the relevant city hall, or in disagreement with the project approved, could lead to risks and liabilities for the property if the area is not regularized and it is inspected by the responsible bodies. These risks include: (i) the impossibility of registering the construction; (ii) the refusal for us to issue an operating license; (iii) the refusal for us to take out or renew property insurance; and (v) the interdiction of the property.

### ***According to the Brazilian law regulating concessions and public-private partnership matters, our corporate structure is composed of some special purpose entities, which may result in our responsibility for tax, labor, environmental protection, consumer and bankruptcy matters originated from our subsidiaries.***

Pursuant to Federal Law No. 11,079/2004, the execution of public-private partnerships must be preceded by the incorporation of a special purpose entity. In the event of one of our subsidiaries incorporated for such purpose does not comply with the contractual obligations or its financial disability to honor with the due capital contribution installments, as provided in the public-private partnership agreement, as their controlling shareholder and/or guarantor are the same, we may be liable to perform supplementary investments and to provide additional services in order to maintain the minimum financial rates provided for under the relevant agreements.

Federal Law No. 8,987/1995, or the Federal Concession Law, which establishes provisions for concessions and permission of public services, sets forth that the concessionaire, incorporated as a special purpose entity or not is responsible for the provision of the service granted in the concession, and is liable for any and all damages to the public entity, users or third parties, it being understood that the inspection carried out by the competent authority does not exclude nor mitigates such liability, which may significantly adversely affect our business and results. In the case of the concessionaire is incorporated as a consortium, the consortium leading company is liable before the public grantor for the compliance with the concession agreement, without prejudice to the joint and several liability of the additional members of the consortium. The risks inherent to our subsidiaries also include bankruptcy and potential enforcement of piercing the corporate veil by the Brazilian Courts and any event impacting the image of our partners, business partners and service providers of our subsidiaries may adversely affect our brand.

## Table of Contents

Additionally, we may be liable for certain obligations of our subsidiaries, including tax, labor, environmental protection, regulatory and consumer matters, which, in the event they materialize, may adversely affect our business and results.

***We are subject to intervention by the Court of Auditors of the State (Tribunal de Contas do Estado) as well as questioning by third parties related to our concession and program contracts.***

Through a request made by the City Council or any interested third party, the Court of Auditors from the State of São Paulo or from the municipality of São Paulo can intervene in our concession and program contracts to investigate their conditions. If any procedure is installed against us or any of our subsidiaries, the Audit Court can propose suspension of the contract, which could interrupt our operations and cause us to lose any investments made in connection with the concession.

In addition, we may be subject to questioning by third parties, including the MPF and State's Public Prosecutor's Office (*Ministério Público Estadual*) regarding our contracts. We may also be subject to investigations and legal proceedings that may require the termination of our contracts and/or amendments to these contracts and/or the prohibition from entering into further agreements with the public entity that granted the contract.

The occurrence of any of these events could have a material adverse effect on our results of operations or financial condition.

***We are subject to penalties related to our registrations, authorizations, licenses and permits for the development of our activities.***

We depend on licensing and registration before federal, state and municipal authorities and agencies, as well as operating permits. We cannot guarantee that we will be able to obtain all the necessary licenses, permits and authorizations, or obtain their renewals in a timely manner. Obtaining the necessary licenses, permits and authorizations depends on clearance from environmental agencies and other authorities, whose deadlines we do not control. The failure to obtain or renew such licenses may prevent us from operating our units and lead to suspension and closing of irregular units, as well as the application of fines. Our strategy may be adversely affected if it is impossible to open and operate new units or the operations our current units are suspended or terminated due to the failure to obtain or renew the required registrations, permits and licenses, which may adversely affect our results of operations.

In addition, we are required to comply with the administrative limitations provided by environmental laws, such as the preservation of environmentally protected areas, and of nature conservation areas (e.g., parks, reserves, protected areas, etc.). Our non-compliance with these restrictions may result in penalties and other liabilities, including substantial fines, criminal/administrative sanctions and the obligation to repair and/or indemnify any damages.

### **Risks Relating to Environmental Matters and Physical and Transition Climate Risks**

***Noncompliance with environmental laws and environmental liability could have a material adverse effect on us, our reputation and image.***

We are subject to extensive Brazilian federal, state and municipal laws and regulations relating to the protection of human health and the environment. These laws and regulations set, among others, environmental licensing and water grants requirements, as well as drinking water standards, limits for receiving effluents from non-domestic sources into our treatment systems and the quality standards that must be met by the sewage that is treated at the plants before being discharged into the waterways. We may also experience accidents such as leaks or broken pipes that can lead to liability for environmental damages (i.e groundwater and soil contamination) and infractions.

We are a party to several environmental proceedings and could be subject to other types of criminal, administrative and civil proceedings for non-compliance with environmental laws and regulations, including licensing requirements and water grants, that could expose us to administrative penalties and criminal sanctions, such as fines, closure orders and significant indemnification obligations. Furthermore, we are a party to commitment terms regarding the regularization of licenses and water grants requirements for our operation, that may lead us to administrative, civil and criminal liabilities, if they are not fulfilled. Such expenses may lead us to reduce expenditure on strategic investments, which may adversely affect our business, financial condition, results of operations or reputation.

We are also a party to environmental proceedings related to the release of untreated sewage into waterways or the disposal of sludge generated by treatment plants, which subject us to civil proceedings and investigations related to recovery and indemnifications of the caused damages. In addition, we are involved in civil/administrative proceedings challenging the water withdrawn during the 2014-2015 water crisis. Any unfavorable judgment in relation to these proceedings, or any material environmental liabilities, may have a material adverse effect on our reputation, business, financial conditions or results of operations.

## Table of Contents

For more information on these proceedings, see “Item 8.A. Consolidated Financial Statements and Other Financial Information—Legal Proceedings.” For more information on investments in environmental programs, see “Item 4.A. History and Development of the Company—Main Projects of our Capital Expenditure Program,” “Item 4.B. Business Overview—Description of our Activities—Sewage Operations—Sewage Treatment and Disposal,” “Item 4.B Business Overview—Environmental Matters” and “Item 4.B. Business Overview— Environmental Matters—Environmental Regulation.”

***Droughts, such as the 2014 – 2015 water crisis, can cause a material impact on consumption habits and, consequently, on our business, financial condition or results of operations.***

We experience decreases in our water supply from time to time due to droughts. The 2019-2020, 2020-2021, 2021-2022 and 2022-2023 rainy seasons recorded below-average rainfall compared to the expected long-term average. This decreased rainfall compromises the recovery of water storage levels that are necessary to serve the population during dry months, which run from April to September. It is not possible to predict the behavior of rain in the future, especially considering the climate change worsening. If we undergo consecutive periods of droughts, we may be required to adopt measures to mitigate the impacts and maintain the water supply in our area of operation.

The droughts in 2014 and 2015 severely affected the level of water sources that supply the metropolitan region of São Paulo, forcing us to adopt a series of measures from 2014 to April 2016 to mitigate its impact and maintain the water supply served in the metropolitan region of São Paulo. In addition, in 2021, Brazil’s south-central region was affected by the worst drought in recent history. Between March and May 2021, dry weather in Brazil’s south-central region led to a shortage of water held in rivers, lakes, soil and aquifers, compared with the seasonal average for the past twenty years. With the return of the rainfall to its historical average, the volume of water available to the population of the São Paulo metropolitan region returned to a normal level. However, heightened public awareness of the need to conserve water during the crisis and other more recent droughts resulted in our customers continuing to adopt lower water consumption practices. Accordingly, this change in consumption practice due to the 2014-2015 water crisis has had a continued effect on our results of operations since then, emphasizing the importance of sustainable management of water resources and the significant impacts that water shortages can have on consumption habits, our business and our operating results. For more information, see “Item 4.B. Business Overview—The 2014-2015 Water Crisis.”

There is a risk that there might be further periods of drought in the future when we consider what has happened in the past, forcing us to adopt similar or more severe measures as those adopted in 2014-2015, which can cause further material changes to consumption habits. These uncertainties could have a material adverse effect on our results of operations and financial condition.

***Extreme Weather Conditions and Climate Change may have a material adverse impact on our business, financial condition or results of operations.***

Our business may be affected by droughts, and by other extreme weather conditions, such as torrential rain and other changes in climate patterns. A possible increase in the severity of extreme weather conditions in the future may adversely affect the water available for abstraction, treatment, and supply, whether from the standpoint of quality or quantity. Droughts could adversely affect the water supply systems, resulting in a decrease in the volume of water distributed, and consequently, the volume of water billed (i.e. the revenue derived from water supply services). For more information, see “Item 3.D. Risk Factors—Risks Relating to Environmental Matters and Physical and Transition Climate Risks— Droughts, such as the 2014 – 2015 water crisis, can cause a material impact on consumption habits and, consequently, on our business, financial condition or results of operations.” Extreme climate conditions may compromise our facilities’ conditions to operate and supply of inputs. Additionally, increases in air temperature could affect demand for water.

Since we are dependent upon energy supplies to conduct our business, extreme weather events may also reduce water levels in the reservoirs that power hydroelectric power plants in Brazil, which may cause energy shortages, which could affect water and sewage services. Increased electricity prices may also adversely affect our costs and results of operations. For more information, see “Item 3.D. Risk Factors—Risks relating to Our Suppliers—Any interruptions in the supply of electricity and water may adversely affect our operations” and “Item 4.B. Business Overview—Energy Consumption.”

In February 2023, there were torrential rains on the northern coast of the State of São Paulo, especially in the city of São Sebastião, where we operate. Within 24 hours, 683mm of rain fell in São Sebastião. It was the highest volume of rainfall recorded in Brazil within such a short period of time since records began. As a result, our water treatment plants in the region were damaged, and the water supply was interrupted for some days due to siltation, the inability to store water, and lack of electricity. If similar incidents occur in the future or become more frequent, these events may have other additional material adverse effects on our results of operations and financial condition.

We cannot predict all of the effects of extreme weather events, making it difficult to estimate the resources needed to mitigate these effects. It is possible that as a result of the difficulty to predict these events, we may be required to make other significant investments or incur substantial costs in their remediation or prevention measures, which may have a material adverse impact on our business, financial condition or results of operations. We also cannot guarantee that we will be able to pass on any of these additional costs and expenses to our customers.

## Table of Contents

***New laws and regulations relating to climate change and changes in existing regulation may result in increased liabilities and increased capital expenditures, which could have a material adverse effect on us.***

We are currently subject to federal and state laws, as well as international regulations on climate change, that establish global goals to reduce greenhouse gas (“GHG”) emissions, which we endeavor to comply with. Among these laws, we highlight Decree No. 65,881 of July 20, 2021, which provides for the State of São Paulo’s adherence to the “Race to Zero” and “Race to Resilience” campaigns, which aims, among other issues, to reduce GHG emissions and to foster climate resilience. Decree No. 65,881/2021 also provides for the development of the 2050 Climate Action Plan (PAC 2050) by the State of São Paulo government, which will likely include benchmark targets for various sectors, including sanitation.

Additionally, the potential approval of new regulation could introduce additional obligations concerning the reduction of GHG emissions in the future to comply with potential emission limits. On December 21, 2023, the Chamber of Deputies approved the new text of Bill No. 2.148/2015 that establishes the Brazilian Greenhouse Gas Emissions Trading System, which has been treated as a Market Brazilian Carbon Regulation. This is a regime for limiting GHG emissions and selling assets representing the emission, emission reduction or removal of GHG in the country. The model called cap-and-trade has already been adopted in other places, such as in Mexico and in European countries. It is possible that we may have to invest in further actions to reduce and mitigate emissions to comply with the limits established in legislations and new regulations, if they are approved.

With Brazil’s current adherence to international agreements, as well as the clear guidelines of the state government on reducing emissions, in addition to the establishment of new legislation, it is possible that we may have to invest in further actions to reduce and mitigate emissions. We may be required to adopt new standards to improve our energy use efficiency and minimize the release of GHGs for the systems already in operation or when we obtain environmental licenses for new enterprises. We may also need to incur substantial new expenditures, to comply with new climate change regulations, that may require us, for example, (i) to adapt and improve our operations to achieve more sustainable processes and to reduce the emission of GHGs; (ii) to implement new facilities and equipment for the utilization of biogas and generated sludge; (iii) to expand the use of clean and renewable energy sources and alternative fuels; or (iv) to offset GHG emissions through intensified conservation and reforestation activities. Accordingly, new climate change regulations represent a great challenge for us given the diverse and dispersed processes we use at our operational facilities and the fact that changes in process design affect both our current operations and future projects.

On March 6, 2024, the SEC approved new rules that will require significant climate-related disclosures by public companies, including evaluation and disclosure of material climate-related risks and opportunities, GHG emissions inventory, climate-related targets and goals, and financial impacts of physical and transition risks (the “SEC Climate Rules”). A large number of petitions that seek judicial review of the SEC Climate Rules have been filed. On April 4, 2024, the SEC voluntarily stayed implementation of these new rules pending completion of judicial review of consolidated legal challenges by the Court of Appeals for the Eight Circuit. Assuming that the SEC Climate Rules are ultimately upheld in their present form, our legal, accounting, and other compliance expenses may increase significantly, and compliance efforts may divert management time and attention.

In addition, the CVM approved Resolution No. 193/2023, which establishes, on a voluntary basis, the option for publicly held companies to prepare and disclose a report of financial information related to sustainability, based on the international standard issued by the International Sustainability Standards Board (“ISSB”). Any company that voluntarily decides to prepare the sustainability report has the obligation to follow the international standard issued by the ISSB. According to CVM Resolution No. 193/2023, there will only be an obligation to prepare and disclose such information as of January 1, 2026.

We may be exposed to legal or regulatory action or claims as a result of the SEC Climate Rules and CVM Resolution No. 193/2023. Although we are still in the process of assessing the scope and impact of these rules given how recently they were adopted and the subsequent legal challenges, some of these risks could have a material adverse effect on our business, financial condition, results of operations and the prices of our securities.

New expenditures resulting from new climate change regulations and from the prevention or correction of effects of extreme weather could have a material adverse effect on our results of operations. For more information, see “Item 4.B. Business Overview—Environmental Matters—Climate Change Regulations: Reduction of Greenhouse Gases (GHG) Emissions” and “Item 4.B. Business Overview—Energy Consumption.”

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

***We may need to raise additional funds in the future and may issue additional common shares, which may result in a dilution of your interest in our common shares underlying the ADS. In addition, a dilution of your interest in our common shares underlying the ADS may occur in the event of our merger, consolidation or any other corporate transaction of similar effect in relation to companies that we may acquire in the future.***



## **Table of Contents**

We may have to raise additional funds (in order to finance, for example, capital expenditures and consideration due in connection with new concessions) in the future through private or public offerings of shares or other securities convertible into shares issued by us. The funds we raise through the public distribution of shares or securities converted into shares may be obtained with the exclusion of right of first refusal of our existing shareholders, including investors in our common shares underlying the ADS, as provided by the Brazilian Corporate Law, which may dilute the interest of our then-existing investors. In addition, a dilution of your interest in our common shares underlying the ADS may occur in the event of merger, consolidation or any other corporate transaction of similar effect in relation to companies that we may acquire in the future.

***International judgments may not be enforceable when considering our directors or officers' status of residency.***

All our directors and officers named in this annual report reside in Brazil. We, our directors and officers and the members of our audit committee have not agreed to receive service in the United States. Substantially all of our director and officers' assets are located in Brazil. As a result, it may not be possible to file service within the United States or other jurisdictions outside of Brazil to such persons, pledge their assets, or enforce decisions under civil liability or securities laws of the United States or the laws of other jurisdictions against them or us in the courts of the United States, or in the courts of other jurisdictions outside of Brazil.

***We may not always be in a position to pay dividends or interest on shareholders' equity and ADSs.***

Depending on our future results, our shareholders may not receive dividends or interest on own capital if we do not generate a profit. Despite the requirement to distribute a minimum of 25% of the adjusted annual net income to shareholders in accordance with Brazilian Corporate Law, our future financial position may not permit us to distribute dividends or pay interest on own capital.

***The relative volatility and illiquidity of the Brazilian securities markets may substantially limit your ability to sell our common shares underlying the ADSs at the price and time you desire.***

Investing in securities from emerging markets such as Brazil involves greater risk than investing in securities of issuers in major securities markets, and these investments are often considered to be more speculative in nature. The Brazilian securities market is substantially smaller, less liquid, more concentrated and can be more volatile than major securities markets. Accordingly, although you are entitled to withdraw the common shares underlying the ADSs from the depositary at any time, your ability to sell the common shares underlying the ADSs at a price and time at which you wish to do so may be substantially limited. There is also significantly greater concentration in the Brazilian securities market than in major securities markets.

***Investors who exchange ADSs for common shares may lose their ability to remit foreign currency abroad and obtain Brazilian tax advantages.***

The Brazilian custodian for the common shares underlying our ADSs must obtain a certificate of registration from the Central Bank in order to be entitled to remit U.S. dollars abroad for payments of dividends and other distributions relating to our common shares or upon sales of our common shares. If an ADR holder decides to exchange ADSs for the underlying common shares, the holder will be entitled to continue to rely on the custodian's certificate of registration for five business days from the date of exchange. After that period, the holder may not be able to obtain and remit U.S. dollars abroad upon sale of our common shares, or distributions relating to our common shares, unless he or she obtains his or her own certificate of registration or registers the investment under CMN Resolution No. 4,373/2014, dated September 29, 2014, ("4,373 Holder") which entitles registered foreign investors to buy and sell on a Brazilian stock exchange. If the holder does not obtain a certificate of registration or register under Resolution No. 4,373/2014, the holder will generally be subject to less favorable tax treatment on gains with respect to our common shares.

If a holder attempts to obtain his or her own certificate of registration, the holder may incur expenses or suffer delays in the application process, which could delay his or her ability to receive dividends or distributions relating to our common shares or the return of his or her capital in a timely manner. The custodian's certificate of registration or any foreign capital registration obtained by a holder may be affected by future legislative changes, and additional restrictions applicable to the holder, the disposition of the underlying common shares or the repatriation of the proceeds of disposition may be imposed in the future.

From time to time there are proposals to tax dividends paid by Brazilian companies and changes to the taxation of interest on equity. If such proposals were to be realized, this would increase the tax expenses associated with any dividend, interest on equity or distributions made by Brazilian companies, which could impact us or our shareholders and the value of our common shares and ADSs. Uncertainty regarding the implementation by the current government of related changes in monetary, fiscal and pension policies, as well as pertinent legislation, could contribute to economic instability. These uncertainties and new measures could increase the volatility of Brazilian securities markets.

In addition, we cannot assure that there will not be changes to other applicable laws and regulations, or their interpretation, that may increase our tax burden or reduce tax incentives available to us or our investors, or that the tax incentives will be effectively maintained on their current terms until the end of their effective term, or that tax incentives will be able to be renewed on favorable conditions after the expiration of their current terms. Any such changes could impact us, our shareholders or our investors and the value of our common shares and ADSs.



## **Table of Contents**

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

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

***Mandatory arbitration provisions in our bylaws may limit the ability of a holder of our ADRs to enforce liability under U.S. securities laws.***

Under our bylaws, any disputes among us, our shareholders and our management with respect to the *Novo Mercado* listing rules ("*Novo Mercado* Listing Regulation"), the Brazilian Corporate Law and Brazilian capital markets regulations will be resolved by arbitration conducted pursuant to the B3 Arbitration Rules in the Market Arbitration Chamber. Any disputes among shareholders and ADR holders, and any disputes between us and our shareholders and ADR holders, will also be submitted to arbitration. As a result, a court in the United States might require that a claim brought by an ADR holder predicated upon the U.S. securities laws be submitted to arbitration in accordance with our bylaws. In that event, a purchaser of ADSs would be effectively precluded from pursuing remedies under the U.S. securities laws in the U.S. courts. However, a court in the United States could allow claims predicated upon the U.S. securities laws brought by holders who purchased ADSs on the NYSE to be submitted to U.S. courts.

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

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

***Holders of our ADSs do not have the same voting rights as our shareholders.***

Holders of our ADSs do not have the same voting rights as holders of our shares. Holders of our ADSs are entitled to the contractual rights set forth for their benefit under the deposit agreements. ADS holders exercise voting rights by providing instructions to the depository, as opposed to attending shareholders meetings or voting by other means available to shareholders. In practice, the ability of a holder of ADSs to instruct the depository as to voting will depend on the timing and procedures for providing instructions to the depository, either directly or through the holder's custodian and clearing system. The deposit agreement also provides that if the depository does not receive any instructions from a holder of ADRs, the ADR holder may be deemed to have given a discretionary proxy to a person designated by our company and the underlying shares may be voted by such person. However, we have chosen not to designate any person to exercise these deemed proxy rights with respect to any annual or special general meetings, and ADSs for which no specific voting instructions were received by the Depository were therefore not voted at that meeting.

***If we issue new shares or our shareholders sell shares in the future, the market price of your ADS may be reduced.***

Sales of a substantial number of shares, or the belief that this may occur, could decrease the prevailing market price of our common and preferred shares and ADSs by diluting the shares' value. If we issue new shares or our existing shareholders sell shares they hold, the market price of our common and preferred shares, and of the ADSs, may decrease significantly. Such issuances and sales also might make it more difficult for us to issue shares or ADSs in the future at a time and a price that we deem appropriate and for you to sell your securities at or above the price you paid for them. Our controlling shareholder, the State of São Paulo, may decide to undertake a corporate reorganization, such as the Proposed Privatization, which could have the effect of diluting existing shareholders and ADS holders or lead to a change of control.

***Judgments of Brazilian courts with respect to our common shares are required to be payable only in reais.***

If proceedings are brought in the courts of Brazil seeking to enforce our obligations in respect of our common shares, we may not be required to discharge our obligations in a currency other than *reais*. Under Brazilian exchange control limitations, an obligation in Brazil to pay amounts denominated in a currency other than *reais* must only be satisfied in Brazilian currency at the exchange rate, as determined by the Central Bank of Brazil, in effect (1) on the date of actual payment, (2) on the date on which such judgment is rendered or (3) on the date on which collection or enforcement proceedings are commenced. The then prevailing exchange may not provide non-Brazilian investors with full compensation for any claim arising out of or related to our obligations under the common shares or the common shares represented by ADRs.