

**B. Capitalization and Indebtedness**

Not applicable.

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

Not applicable.

**D. Risk Factors**

**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, currency devaluation or appreciation, capital controls and limits on imports. 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;
- changes in labor regulations;
- political elections and social and political instability;
- inflation;
- liquidity of the Brazilian capital and lending markets;
- tax and regulatory policies and laws;
- economic and social instability;
- the Brazilian government's response to the COVID-19 pandemic and, *inter alia*, its impacts on water consumption, labor laws and other regulations affecting our industry. For further information regarding risks relating to communicable diseases including the novel coronavirus, see "—Risks Relating to Our Business— Our financial and operating performance may be adversely affected by epidemics, natural disasters and other catastrophes, such as the outbreak of COVID-19;" and
- other political, foreign policy, social and economic developments in or affecting Brazil.

Uncertainties in relation to the implementation by the Brazilian government of changes relating to the monetary and tax policies, the approved pension reform and possible developments arising from this reform, and other relevant legislation, aggravated by the impacts of the COVID-19 pandemic, may contribute to economic uncertainty. In addition, the Brazilian economy was affected by recent political events that also affected the confidence of investors and the public in general, thus harming Brazilian economic performance. We cannot predict the measures that the federal 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. 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.

***Ongoing political instability has adversely affected the Brazilian economy and 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 various ongoing investigations by the Brazilian Federal Prosecutors' Office (*Ministério Público Federal*), the Brazilian Federal Police (*Policia Federal*), the CVM, and other Brazilian public entities who are responsible for corruption and cartel investigations, including, among others, the *Cui Bono*, *A Origem*, *Sepsis*, *Patmos*, *Zelotes* and Greenfield investigations, as well as the largest such investigation, known as *Lava Jato*. In addition, certain foreign entities, such as the U.S. Department of Justice, the SEC and the Office of the Attorney General of Switzerland (*Bundesanwaltschaft*), have also conducted and still conduct their own investigations. These investigations have negatively impacted the Brazilian economy and political environment and have contributed to a decline in market confidence in Brazil. In addition, they may lead to further allegations and charges against Brazilian federal and São Paulo state government officials and senior management of Brazilian industry.

Numerous elected officials, public servants and executives and other personnel of major companies have been subject to investigation, arrest, criminal charges and other proceedings. Depending on the outcome of such investigations and the time it takes to conclude them, they may face (as some of them already faced) downgrades from credit rating agencies, experience (as some of them already experienced) funding restrictions and have (as some of them already had) a reduction in revenues, among other negative effects. Such negative effects may hinder the ability of those companies to timely honor their financial obligations bringing losses to us as a number of them are our suppliers. The companies involved in the *Lava Jato* investigations, a number of which are our suppliers, may also be (as some of them already have been) prosecuted by investors on the grounds that they were misled by the information released to them, including their financial statements.

There can be no assurance that other federal or state officials or senior management of Brazilian industry will not be charged with corruption-related crimes in the *Lava Jato* or other investigations into corruption. Additional allegations, trials and convictions 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.

Mr. Bolsonaro took office as president on January 1, 2019, following a period of political instability marked by the impeachment of President Dilma Rousseff and the conviction, and subsequent arrest, of former President Luis Inácio Lula da Silva. Mr. Bolsonaro established an agenda of privatizations, economic liberalization, and pension and tax reforms. His presidency has since been marked by divisive rhetoric, fractious relations with congress and infighting within his own administration. He has had to reshuffle his cabinet repeatedly following the exits of many of his high-profile ministers, including numerous Ministers of Health and his Minister of Justice, who resigned following allegations that President Bolsonaro was interfering in anticorruption investigations. We cannot predict the policies that the President Bolsonaro administration may adopt or change in relation to corruption investigations, the COVID-19 pandemic, the economy or otherwise, or the effect that any such policies may have on our business and the Brazilian economy as a whole.

As of the date of this annual report, President Bolsonaro is being investigated by the Brazilian Supreme Court for the alleged improper acts claimed by the former Minister of Justice, Sergio Moro. Any resulting consequences of this investigation, including a potential opening of the impeachment process or trial by the Brazilian Supreme Court, could have significant adverse effects on the political and economic environment in Brazil, as well as on businesses operating in Brazil, including our business.

Further, during the campaign, the then main contender and current Minister of Economy proposed taxing dividends paid by Brazilian companies and changes in taxation method of interest on equity. If this campaign promise 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.

Ultimately, there is no guarantee that President Bolsonaro will be successful in executing his privatization, liberalization and tax reform agenda fully or at all, or manage the COVID-19 pandemic effectively, nor can we predict with certainty how President Bolsonaro's administration may impact the overall stability, growth prospects and economic and political health of the country.

Any of the above factors may create additional political uncertainty, which could harm the Brazilian economy and, consequently, our business, results of operations and 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. 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. The Special Clearing and Settlement System (*Sistema Especial de Liquidação e Custódia*), or SELIC, the official overnight interest rate in Brazil, was 1.90%, 4.40% and 6.40% at the end of 2020, 2019 and 2018, respectively, in line with the target rate set by the Brazilian Committee on Monetary Policy (*Comitê de Política Monetária*, or "*COPOM*"). However, the COPOM has frequently adjusted the interest rate in situations of economic uncertainty and to achieve objectives under the economic policy of the Brazilian government. For example, in response to the COVID-19 outbreak, the COPOM further reduced the SELIC target rate to 2% between August 2020 and March, 2021, after which it was raised to 2.75%, 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.

The Brazilian annual inflation rates, as measured by the Amplified Consumer Price Index (*Índice Nacional de Preços ao Consumidor Amplo*), or IPCA, were 4.52%, 4.31% and 3.75% during 2020, 2019 and 2018, respectively. If Brazil experiences substantial 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, 2017, the exchange rate was R\$3.31 to U.S.\$1.00, representing a depreciation of 1.5% as compared to the rate prevailing as of December 31, 2016. As of December 31, 2018, the exchange rate was R\$3.87 to U.S.\$1.00, representing a depreciation of 17.1% as compared to the rate prevailing as of December 31, 2017. As of December 31, 2019, the exchange rate was R\$4.03 to U.S.\$1.00, representing a depreciation of 4.0% as compared to the rate prevailing as of December 31, 2018. Further, during 2020, the *real* was very volatile and depreciated by 28.9% against the U.S. dollar by year-end. This volatility continued in the early months of 2021 and as of April 19, 2021, the commercial selling rate as reported by the Central Bank was R\$5.5750 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 São Paulo Stock Exchange (B3 S.A. - Brasil, Bolsa, Balcão, or "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 *real* against the U.S. dollar could create inflationary pressures in Brazil and cause 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 *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 *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. We had total foreign currency denominated debt of R\$3,547.8 million as of December 31, 2020 and we anticipate that we may incur additional amounts of foreign currency denominated debt in the future. In 2020, our results of operations were negatively affected by the 28.9% depreciation of the *real* against the U.S. dollar, and the depreciation of the *real* against the Yen by 35.7%, which together led to a R\$2,180.2 million negative impact on our foreign exchange result, net. We do not currently have any derivative instruments in place to protect us against a devaluation of the *real* in relation to any foreign currency. 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 2020 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.

In addition, global financial crises have caused, and in the future may again cause, significant consequences, including in 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.

**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 São Paulo state 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, 2020, the State owned 50.3% of our outstanding common shares. In addition, pursuant to the State Constitution of São Paulo, the Governor of São Paulo, the legal representative of our controlling shareholder, is the competent authority to make these decisions. Both through its control of our board of directors as well as by enacting State decrees, the State has in the past directed our company to engage in business activities and make expenditures that promoted political, economic or social goals, but that did not necessarily enhance business, financial condition or results of operations. For example, the State issued Decree No. 64,879/2020 in March 2020 setting out emergency measures as a result of the coronavirus outbreak, including exempting customers under the “Residential Social” and “Residential Favela” categories from paying water and sewage bills for all municipalities we serve. This exemption was extended until September 15, 2020. Among the measures to mitigate the economic effects of the COVID-19 pandemic, on February 3, 2021, our Board of Executive Officers approved a series of measures aiming to minimize our customers’ defaults, facilitating them to maintain their businesses during the COVID-19 pandemic and to be able to pay-off their debts in the future. See “Item 4.B. Business Overview—Tariffs.” The São Paulo state government may direct our company to act in this manner again in the future, depending on the evolution of the pandemic in the State of São Paulo. These decisions by the State may not be in the interests of our non-controlling shareholders, including holders of ADSs.

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. Consequently, the State is empowered to approve most matters prescribed by law. We cannot guarantee that there will not be further changes to our Board of Directors or Executive Officers and whether such further changes may have a material adverse effect on our business, financial condition or results of operations.

Further, we cannot guarantee that there will not be further changes to our Board of Directors or Executive Officers and whether such further changes may have a material adverse effect on our business, financial condition or results of operations, especially during new elections periods.

***Our controlling shareholder is currently discussing proposals for our corporate reorganization. We cannot guarantee that any potential reorganization will not have a material adverse effect on our business, financial condition or results of operations.***

In September 2017, the State of São Paulo obtained approval for State Law No. 16,525/2017, which authorizes the State of São Paulo to set up a controlling company to hold all of the shares that the State of São Paulo owns in our company. Once established, the controlling company could sell shares to other minority shareholders, including private companies and state-owned companies, provided, however, that the state of São Paulo will continue to hold a majority of the common shares of the controlling company. We are currently awaiting guidance from the State Privatization Program’s Board (*Conselho Diretor do Programa Estadual de Desestatização - CDPED*), which has authority over our corporate reorganization plan, including the formation of the controlling company, or any other type of corporate reorganization, including a change of control, pursuant to the recent changes to the basic sanitation law. As of the date of this annual report, a decision has not been made on the model for our potential corporate reorganization. See “—Risks Relating to Our Business—Current regulatory uncertainty, especially with regard to the New Legal Framework for Basic Sanitation, may have an adverse effect on our business, financial condition or results of operations.”

***The State and some State entities owe us substantial unpaid debts. We cannot assure you as to when or whether the State will pay us.***

Historically, the State and some State entities have delayed payment of substantial amounts owed to us related to water and sewage services. As of December 31, 2020, the State owed us R\$74.3 million for water and sewage services. Additionally, the State 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 is required to reimburse us.

With respect to payment of pensions on behalf of the State, we had a contested credit amount of R\$1,281.4 million as of December 31, 2020. We do not record this contested amount as a reimbursement credit for actuarial liability due to the uncertainty of payment by the State. We also had an uncontested credit amounting to R\$732.4 million which is recorded as related-party receivables. See note 10(a) to our 2020 financial statements.

In addition, as of December 31, 2020, we had a provision for an actuarial liability in the amount of R\$2,549.5 million with respect to future supplemental pension payments for which the State does not accept responsibility.

In addition, certain municipalities and other government entities also owe us payments. See “—Risks Relating to Our Business— We may face difficulties in collecting overdue amounts owed to us by municipal government entities.” We cannot assure you when or if the State and such municipalities will pay the contested credit amounts, which are still under discussion, and the remaining overdue amounts they owe us. The amounts owed to us by the State, municipalities and other government entities for water and sewage services and reimbursements for pensions paid may increase in the future.

***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., or EMAE, a company that is also controlled by the State of São Paulo, 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 also 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 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 facility. The plaintiffs allege that the State, in its capacity as controlling shareholder of EMAE, has acted unduly to EMAE’s detriment and in favor of our company. This lawsuit was dismissed and is currently under appeal by the plaintiffs.

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*, or 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, but this decision is currently being appealed.

The settlement agreement between EMAE and us does not necessarily terminate the separate lawsuits.

If one of the ongoing lawsuits by minority shareholders of EMAE requires the State 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. See "Item 7. Major Shareholders and Related Party Transactions."

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

***Our financial and operating performance may be adversely affected by epidemics, natural disasters and other catastrophes, such as the outbreak of COVID-19.***

Our financial and operating performance may be adversely affected by pandemics such as COVID-19, as well as other catastrophes and health epidemics. The impact of the COVID-19 pandemic on the global economy and financial markets has been significant in 2020 and is expected to continue during 2021.

In late December 2019 the outbreak of a new contagious disease originated in Wuhan, Hubei province of China, was reported to the WHO. The SARS-CoV-2 strain of the coronavirus virus was identified, with cases and fatalities soon confirmed in multiple provinces in China, as well as in several other countries. On March 11, 2020, the WHO confirmed that its spread and severity had escalated to the point of a pandemic. Coronavirus cases have been diagnosed in virtually every country, and travel to and from China, most of Europe, the United States and other countries, including Brazil, has been suspended or restricted by certain airlines and governments. Further, extended shutdowns of certain businesses and disruptions in financial markets have been reported globally.

In the second quarter of 2020, the São Paulo state government decreed a quarantine throughout the State, restricting business activities in order to avoid the accelerated spread of COVID-19. We experienced a direct impact on revenues as a consequence of the change in the consumption mix, due to the increase in volumes in the residential category and a reduction in the public, commercial and industrial categories which have higher average tariffs, leading to a reduction in the total average tariff, in addition to increases in delinquencies in certain categories.

The new consumption patterns as a result of the COVID-19 pandemic impacted the total volume of water billed. The total volume in the retail category increased by 0.9%. If the categories are considered separately, the total volume of water billed in the residential category increased by 2.6%, whereas the commercial, industrial and public categories were strongly impacted by new consumption patterns, leading to a decrease in consumption of 9.5%, 6.1% and 18.8%, respectively. The uncertainties arising from these new patterns of consumption could have unpredictable material adverse effects on our results of operations and financial condition, particularly as the prices charged to customers in the residential category are lower than in the commercial, industrial and public categories.

Our revenues from the residential sector were also affected as consumers in the "Residential Social" and "Residential Favela" categories were exempt from the payment of water and sewage bills for all municipalities we serve. This exemption was initially valid for 90 days as of April 1, 2020 and was later extended until September 15, 2020. The impact of these exemptions on our revenues in 2020 was approximately R\$125 million. Despite ARSESP already having indemnified us for these exemptions, we cannot assure you that in the event of future exemptions the outcome will be the same. See "Item 4.B. Business Overview–Tariffs."

On April 9, 2020, ARSESP published a tariff readjustment of 2.4924%. Due to the approval of a state of public calamity mentioned above, ARSESP initially postponed this readjustment by 90 days. Considering the on-going effects of the COVID-19 pandemic, the adjustment was further postponed and the tariff readjustment of 3.4026% was only applied on August 15, 2020. This tariff readjustment included a compensatory adjustment of 0.8881% in compensation for the postponement of the annual tariff readjustment. As of December 31, 2020, R\$37,6 million was outstanding to be recovered. See "Item 4.B. Business Overview–Tariffs."

The deterioration of Brazilian and global economic conditions could, among other things, make it more difficult or costly for us to obtain financing for our operations or investments or to refinance our debt in the future and decrease the value of certain of our investments. Any other political or governmental developments or health concerns in Brazil as a result of this outbreak could result in social, economic and labor instability.

We provide a critical service to our customers which means that we must keep our employees who operate our businesses safe and minimize unnecessary risk of exposure to the virus. This is a rapidly evolving situation that could lead to extended disruption of economic activity in our markets. The ultimate impact also depends on factors beyond our knowledge or control, including the duration and severity of this outbreak as well as third-party actions taken to contain its spread and mitigate its public health effects, including the implementation and completion of the vaccination program in Brazil. Accordingly, we currently cannot estimate the potential impact on our financial position, results of operations and cash flows. However, all these uncertainties could have a material adverse effect on our results of operations and financial condition.

***The New Legal Framework for Basic Sanitation prohibits program contracts for basic sanitation services, resulting in uncertainties for our current and future concessions.***

Law No. 11,445/2007, which establishes national guidelines for basic sanitation, was amended by Law No. 14,026/2020, which became known as the New Legal Framework for Basic Sanitation and brought about several changes that directly affect our operations.

As provided, the provision of public basic sanitation services by any party other than municipal and state's public administration can no longer be formalized through program contracts, agreements, partnership agreements and other unstable instruments for the provision of public basic sanitation services were prohibited. As such, any current expired contract we hold with municipalities can only be renewed through a bidding process under Law No. 8,666/1993, as amended, which regulates concession contracts.

Previously, we provided services in several municipalities through contracts which did not require bidding procedures. The current program contracts and contracts that comply with Law No. 11,445/2007 will remain in effect until the end of their contractual term, provided that the contracts set targets for the universalization of services until December 31, 2033, and those who have not set such targets will have to establish them until March 31, 2022. Pursuant to current legislation, the renewal of these contracts, once they expire, will require a bidding process, and therefore we cannot guarantee that we will be able to maintain our current customer base and size of operations.

For our contracts that have expired and that we did not adjust adequately prior to the enactment of the New Legal Framework on Basic Sanitation, we will have to win new bidding processes in order to continue providing our services.

Prior to the New Legal Framework on Basic Sanitation, our market expansion could be undertaken through program contracts that did not require a bidding process. Under the New Legal Framework on Basic Sanitation, this important mechanism for expanding operations in the state of São Paulo or other areas of Brazil is no longer available to us and any new concession must be won through bids, which may increase uncertainty with respect to our plans for expansion of our market share.

***Any sale of our shares to the private sector which removes the State as our majority shareholder brings uncertainties regarding the maintenance of current program contracts.***

The New Legal Framework for Basic Sanitation establishes that, in the event of the sale of the State's share control to the private sector, the current program contracts will be automatically replaced by new concession contracts, subject to the State Privatization Program, where applicable. The framework also establishes that if there is a change in the clauses of these program contracts, such proposals must be presented to the public entities holding the service, who must, in 180 days, manifest their opinion if in disagreement, after which the proposal will be considered as approved. We cannot assure you that all the public entities holding the service will agree to any proposed change in the contract clauses and that the result of those negotiations would not have a material impact on our revenues or operations.

***Municipalities may terminate our concessions 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 a right to terminate our concessions early if we fail to comply with our contractual or legal obligations or if the municipalities determine to do so in an expropriation proceeding (*retomada de serviços*). The resumption of services must be justified by public interest. In these circumstances, the municipalities have to determine that it is no longer in the public interest to continue to provide water and sewage services under the terms and conditions of the current concession.

The Basic Sanitation Law provides that on the early termination of a concession a valuation of the assets that relate to the services provided must be carried out in order to calculate the unamortized portion of investments for purposes of assessing any related indemnification payments due to the relevant company. The resulting indemnification payment may be less than the remaining value of the investments the sanitation service provider made. Alternatively, there may be an extension of the maturity dates for the payments. The municipalities may also refuse to make indemnification payments voluntarily, potentially leading to judicial disputes. In the case of a judicial dispute, there is a risk that the judicial decision will consider the indemnification as undue or set it at a lower value than the investments already made.

The New Legal Framework for Basic Sanitation assigns to ANA the authority to introduce reference standards on the methodology for calculating indemnities due to investments made and not yet amortized or depreciated.

The new law provides that the transfer of services from one provider to another will be conditioned, in each case, on the indemnity of investments linked to reversible assets not yet amortized or depreciated, under the terms of Law No. 8,987/1995. In these cases, the holder of the services may assign payment to the provider who will assume the service. It is not possible to guarantee that future bids will take into account previous resolution of this issue before the bidding processes.

Additionally, we have been, and are currently, party to proceedings related to indemnification issues regarding the resumption of water supply and sewage collection services by certain municipalities. For more information, see Note 20 to our 2020 financial statements included in this annual report. Other municipalities may seek to terminate their concession agreements before the contractual expiration date. 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 adversely affected.



***Current regulatory uncertainty, especially with regard to 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 deferred certain regulations and definitions to be passed at a later date, which could have a significant impact on our operations.

Among them, we highlight the definition and operations of regional sanitation units, which must be established by state governments within one year after the enactment of the law. If this does not take place, the federal government may establish the reference blocks for the regionalized provision of public basic sanitation services pursuant to Article 15 of Law No. 14,026/2020. The regionalized provision of sanitation services is one of the requirements of the new legislation to allow providers to access the federal government's technical and financial resources. On April 21, 2021, State Bill No. 251/2021 was published, whereby four URAEs are proposed to provide drinking water supply and sewage services. Pursuant to the bill, the municipalities have 180 days to adhere to the respective URAE by means of a formal declaration to signed by the mayor. As of the date of this annual report, it is not yet possible to confirm whether this bill will be approved or whether it will be approved as originally drafted. In addition, we cannot predict if the municipalities where we currently operate will adhere to the units that may be created.

The New Legal Framework for Basic Sanitation assigned the authority to edit reference norms to regulate sanitation services pursuant to Article 23, of the Law No. 11.445/2007 to ANA, thereby potentially reducing the autonomy of regional regulatory agencies, which under certain circumstances will have to follow ANA's national guidelines. If these guidelines are not followed, certain consequences may apply to the operators, such as blocking access to funding or financings provided or managed by the federal government or federal entities.

Pursuant to Article 10-B of Law No. 11,445/2007, as amended by Law No.14,026/2020 service operators must comply with financial and economic parameters that will measure their capacity to provide sanitation services and timely reach service standards established by the law. The definition of these parameters is still uncertain and we cannot guarantee that we are currently operating in accordance with the standards that may be issued.

The outcome of the above is still uncertain and we cannot guarantee that it will not materially affect our operations. For more information on ARSESP regulations and these pending measures, see "Item 4.B. Business Overview—Government Regulations Applicable to Our Contracts—The Basic Sanitation Law and the New Legal Framework for Basic Sanitation."

***Droughts, such as the 2014 - 2015 water crisis, can have a material impact on our business and on consumption habits and, accordingly, may have a material adverse impact on our business, financial condition or results of operations.***

We experience decreases in our water supply from time to time due to droughts. For example, we experienced a severe drought in the metropolitan region of São Paulo in 2014 and 2015, which was more intense in the northwest region of the State of São Paulo, resulting in the lowest level of rainfall and water inflow ever recorded in the Cantareira System, the largest production system in the metropolitan region of São Paulo, the lowest over the previous 80 years of record. This drought 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 for the then 20.9 million inhabitants served in the metropolitan region of São Paulo. See "Item 4.B. Business Overview—The 2014-2015 Water Crisis."

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 and the measures taken during the water crisis to continue to service consumers were gradually discontinued from April 2016. However, heightened public awareness of the need to conserve water during the crisis resulted in our customers adopting lower water consumption practices during the water crisis and these practices were partially integrated in our consumers' daily habits. As a result of this new behavior, despite us having a higher volume of water available for treatment, the volume of water billed to our clients did not return to the volume of water billed before the water crisis in 2013, since the water crisis had a strong impact on the consumer awareness and did not return to its former state before the crisis. This change in consumption practice as a result of the 2014-2015 water crisis has had a continued effect on our results of operations since the 2014-2015 crisis.

The 2019-2020 water season which ended in September 2020 had a lower-than-average rainfall compared to the expected long-term average. The Cantareira System received 74% of the expected volume, while the Alto Tietê System received 72% and the Guarapiranga System received 68%. The water inflows were also below average in the three main systems that supply the São Paulo metropolitan region, with the Alto Tietê System recording inflows close to its minimum historic levels between April 2020 and to September 2020.

There is a risk that there might be further droughts similar or more severe to that of 2014-2015 in the future forcing us to adopt similar or more severe measures as those adopted in 2014-2015. This can have a material impact on our business and on consumption habits and, accordingly, may have a material adverse impact on our business, financial condition or results of operations.

***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.***

The provision of water and sewage services in the city of São Paulo accounted for 44.6% of our gross operating revenues from sanitation services (excluding revenues relating to the construction of concession infrastructure) in the year ended December 31, 2020.

On June 23, 2010, the State and the city of São Paulo executed an agreement in the form of a *convênio* with our 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 application of the *convênio*, we executed a separate contract dated June 23, 2010 with the State and the city of São Paulo, to regulate the provision of these services for the following 30 years. Among other principal terms of this separate agreement, we must transfer 7.5% of the gross revenues we derive under the *convênio* and subtract (i) COFINS and PASEP taxes and (ii) unpaid bills of publicly owned properties in the city of São Paulo, to the Municipal Fund for Environmental Sanitation and Infrastructure (*Fundo Municipal de Saneamento Ambiental e Infraestrutura*), established by Municipal Law No. 14,934/2009. See "Item 7.B. Related Party Transactions—Agreement with the State and the city of São Paulo" for further discussion of the principal terms of the *convênio* and principal terms of the separate contract we executed in application of the *convênio*.

In March 2013, ARSESP issued Resolution No. 407/2013 authorizing us to pass through to the service bill the 7.5% transfer to the São Paulo Municipal Sanitation and Infrastructure Fund as a legal charge, as defined by municipal legislation. However, this resolution was suspended, pursuant to requests from the governments of both the city and state of São Paulo made in 2013 and 2014. As a result the collection was suspended, postponing the authorization for us to transfer the charge to consumers in water and sewage bills. For further information regarding the specific regulations which discussed this matter, please refer to “Item 4.B. Business Overview–Tariffs,” especially “Item 4.B. Business Overview–Tariffs–Tariff Readjustment and Revisions.”

On May 9, 2018, ARSESP announced the final result of the Second Ordinary Tariff Revision. Following this revision cycle, 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. Within the scope of the Second Ordinary Tariff Review, the current tariff cycle scheduled to end in April 2021, our only contract that provides for this and complies with ARSESP’s requirements is with the municipality of São Paulo and, accordingly, today 4% of the funds transferred to the São Paulo Municipal Fund for Environmental Sanitation and Infrastructure are being passed through to our tariffs.

Prior to May 9, 2018, our tariff had never included any pass-through to tariffs related to the transfer of 7.5% of the gross revenues obtained from providing sanitation services in the municipality of São Paulo to the São Paulo Municipal Fund for Environmental Sanitation and Infrastructure.

The transfer of 4% was subsequently regulated by ARSESP Resolution No. 870/2019 of May 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, and unpaid bills in respect of publicly owned properties. Within the scope of the Second Ordinary Tariff Review, scheduled to end in April 2021, a regulatory limit of 4% of the municipality’s operating revenue was established to pass on to the tariffs and, if the concessionaire and the municipality decide to transfer amounts greater than 4% of the revenue, the excess will not be recognized as a financial component of tariffs and will be restricted to the municipality. In addition, for recognition as part of the tariff, municipal funds for environmental sanitation and infrastructure must be established by the service provider through a legal act, which specifies the allocation of resources.

From 2010 to December 31, 2020, we have transferred approximately R\$4.0 billion to the São Paulo Municipal Fund for Environmental Sanitation and Infrastructure. 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–Rules Enacted by ARSESP.”

Considering that ARSESP has limited the pass-through to tariff of values transferred to municipal infrastructure funds to 4%, the mandatory 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 the Municipal Fund for Environmental Sanitation and Infrastructure will not be passed through to customers in full and we cannot assure you when and if this will happen and may have an adverse effect on our business, financial condition or results of operations.

The technical note approved by ARSESP on July 30, 2020 which established the methodology to be used for the calculation of the maximum tariff, also establishes that for the third tariff cycle (2021-2024) a 4% limit will be applied to transfers to municipal funds, with transfers made to funds previously approved by ARSESP or those provided for in Article 15 of ARSESP Resolution No. 870/2019 being recognized as part of the tariffs.

***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. The approved update to the structure and its implementation may lead to uncertainties in the market as well as unpredictability about our future revenues.***

Our current tariff structure is based on the pricing regulation approved by State Decree No. 41,446/1996 and has been in force since the 1970s. 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 on April 8, 2021.

Our current Tariff Structure applies different pricing ranges for the following categories of users: (i) residential customers (Residential Normal, Residential Social and Residential Favela) and non-residential customers (including commercial, industrial and public customers, as described in “Item 4.B. Business Overview–Tariff Structure”); (ii) the metropolitan regions of São Paulo and the regional system; (iii) water and sewage, with no difference in prices for sewage collection and treatment; and (iv) the charge of a minimum consumption of 10 m<sup>3</sup>/month and differences in prices per range, with progressive increases in the price as consumption increases. In 2020, 2019 and 2018, the average price calculated for the regional systems was approximately 21% below the average price of the São Paulo metropolitan region. See “Item 4.B. Business Overview–Tariff Structure.”

The new Tariff Structure, which we will adopt from 2022, introduces: (i) new classifications for residential customers (Residential, Residential Social, Residential Vulnerable and Residential Collective) and non-residential customers (Commercial, Commercial Assistance, Commercial Collective, Industrial and Public Wholesale, Water Truck, Sewage Cleaning Truck); (ii) different prices for water, sewage collection and treatment sewage services; (iii) the unification of our pricing schedules, which partially reduces subsidies between the regions; and (iv) the charging of a fixed component that reflects fixed costs per connection and another variable part that reflects consumption (a binomial price).

The transition period from 2021 to 2024 during which it will be implement this new tariff structure may lead to uncertainties as well as unpredictability about the revenues we expect to earn from May 2022, given that it is difficult to determine the customer reclassification as a result of price changes, which can lead to differences in our revenues compared to those projected based on the current tariff structure. We cannot assure what the result of the implementation of this new tariff structure will be and if it will have an adverse effect on our business, financial condition or results of operations. see “Item 4.B. Business Overview–Tariffs–New Tariff Structure.”



***Any failure to obtain new financing may adversely affect our ability to continue our capital expenditure program.***

Our capital expenditure program will require resources of approximately R\$21 billion in the period from 2021 through 2025. In 2020, we recorded R\$4.4 billion in capital expenditures. Cash used in 2020 referring to our historical investment totaled R\$3.3 billion. In addition to cash generated by our operations, we have funded and intend to continue funding these capital expenditures with 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.

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.

Historically, we have had solid relationships with local and international public and private banks, which have in the past allowed us to raise funds to refinance debts and also to execute our investment plan. However, we cannot guarantee that we will have access to financing in the future at rates that are compatible with our business plan, which could have a material adverse effect on our business, financial condition or results of operations and our future investment plan.

Our debt includes financial covenants that impose indebtedness limits on us. Our failure to comply with these covenants could seriously impair our ability to finance our capital expenditure program, which could have a material adverse effect on us. For further information on these covenants, see "Item 5.B. Liquidity and Capital Resources—Indebtedness Financing—Financial Covenants."

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

Our business is not only affected by droughts but also by other extreme weather conditions, such as torrential rain and other changes in climate patterns. A possible increase in the frequency of extreme weather conditions in the future may adversely affect the water available for abstraction, treatment, and supply. Droughts could adversely affect the water supply systems, resulting in a decrease in the volume of water distributed and billed as well as in the revenue derived from water supply services. For further information, see "3.D. Risk Factors –Droughts, such as the 2014 – 2015 water crisis, can have a material impact on our business and on consumption habits and, accordingly, may have a material adverse impact on our business, financial condition or results of operations." An increase in heavy rainfall could damage our installations or impact the regular operation of water sources, including abstraction of water from our reservoirs due to increased soil erosion, silting, and runoff of pollutants that affect the aquatic ecosystems. A rise in sea level could result in increased salinity in the river estuaries where we abstract water, which could affect water treatment in these areas. Rising sea levels could also cause damage in our sewage collection network. 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, may prevent us from providing water and sewage services and may also cause material damage to our water and sewage systems when we resume operations. Increased electricity prices may also adversely affect our costs and operations. For further information, see "Item 4.B. Business Overview—Energy Consumption."

Climate change may lead to increased frequency of extreme weather events conditions, such as droughts or torrential rains, which may affect our ability to deliver our services and require us to strengthen our actions such as:

- investing in new technologies;
- improvement of water conservation practices and demand management alternatives such as economic mechanisms or educational programs; and
- increasing the capacity of our water reservoirs, as well as the resilience and flexibility of our water treatment systems.

We cannot predict all of the effects of extreme weather events, therefore making it difficult to predict any necessary investments, as current technology and scientific understandings of climate change make it difficult to predict potential expenses and liabilities. If any of these events occur, we may be required to make substantial investments or incur substantial costs in their remediation, 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 expenditures to our customers.

***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.***

Current federal and state laws and regulations on climate change establish global goals, which we will have to meet, concerning greenhouse gas emissions and this may require us to increase our investments in order to comply with these laws. Currently, these goals have not yet been established for the sanitation sector. However, once they are established and if we increase our capital expenditures for this purpose, we may be required to reduce expenditures on other strategic investments. We have not provisioned any specific funds for climate change events as current technology and scientific understandings of climate change make it difficult to predict potential expenses and liabilities. We may be required to adopt new standards to improve our energy use efficiency and minimize the release of greenhouse gases when we renew the environmental licenses for the systems already in operation or when we obtain environmental licenses for new enterprises. We may need to make substantial new expenditures, either to comply with new environmental regulations linked to climate change or to prevent or correct the physical effects of extreme weather events, any of which 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."

***Compliance with environmental laws and environmental liability could have a material adverse effect on us.***

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 requirements and potable water standards, as well as standards for effluents which limit or prohibit the discharge or spillage of untreated effluent produced in our operations, particularly raw sewage. We could be subject to various types of criminal, administrative and civil proceedings for non-compliance with environmental laws and regulations, including licensing requirements, that could expose us to administrative penalties and criminal sanctions, such as fines, closure orders and significant indemnification obligations. These expenses may lead us to reduce expenditure on strategic investments, which may adversely affect our business, financial condition or results of operations.

We are party to environmental proceedings that could have a material adverse impact on us, including civil processes and investigations relating, among others, to the release of untreated sewage into waterways or the disposal of sludge generated by treatment plants. We are also involved in proceedings challenging the water withdrawing in the face of 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 business, financial condition or results of operations. For further information on these proceedings, see "Item 8.A. Financial Statements and Other Financial Information–Legal Proceedings." For further 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." For further information on the Water Crisis, see "Item 4.B. Business Overview–The 2014-2015 Water Crisis."

***Any substantial monetary judgment against us in legal proceedings may have a material adverse effect on us.***

We are currently a party to numerous legal proceedings relating to civil, corporate, environmental, labor and tax claims filed against us. These claims involve substantial amounts of money and other remedies. We have established provisions for all amounts in dispute that represent a present obligation as a result of a past event and is probable there will be outflow to settle the referred obligation in the view of our legal advisors and due to disputes that are covered by laws, administrative decrees, decrees or court rulings that have proven to be unfavorable. As of December 31, 2020, the estimated total claims asserted amounted to R\$48,228.5 million (net of R\$196.3 million in escrow deposits), including contingent liabilities. We have recognized provisions totaling R\$1,252.3 million (net of escrow deposits) as of December 31, 2020. These provisions do not cover all legal proceedings involving monetary claims filed against us and it may be insufficient to cover the ultimate resolution of these claims. Any unfavorable judgment in relation to these proceedings may have a material adverse effect on our financial condition. For more information, see "Item 8.A. Financial Statements and Other Financial Information–Legal Proceedings" and Note 19 to our 2020 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. There can be no assurance that our internal policies and procedures will be sufficient to prevent or detect any inappropriate practices, fraud or violations of these laws or regulations 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. 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 have a material adverse effect on our reputation, 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 also may 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. Following the COVID-19 outbreak, we started to use new communication software and systems. However, we currently cannot assure that these systems adequately protect data and information to avoid confidentiality breaches or 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, 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 user names, 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 brand, result in significant legal and financial exposure, lead to loss of customer confidence in our products and services, and adversely 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.

***Failure by us to comply with the LGPD or any further privacy 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 (the "Brazilian Internet Act") and the Brazilian General Law for Data Protection (Law No. 13,709/2018 or "LGPD") and their related regulations, including regulations to be enacted by the Brazilian National Data Protection Authority (ANPD).

The Brazilian Internet Act applies to personal data collected through the Internet, and establishes other principles and rules with respect to the privacy and protection of the personal and behavioral data of internet users. The Internet Act guarantees, among others, the privacy of internet and privately stored communications. Any data processing activity is subject to the data subject's informed, free and express consent. If we fail to comply with the provisions of the Internet Act, we may be subject to sanctions and penalties, including damages, which will be assessed based on the nature and degree of our non-compliance, among other factors.

The LGPD came into effect on September 18, 2020 and provides a comprehensive regulation for the use of personal data in Brazil. Companies and organizations that do not comply with the new requirements may suffer administrative sanctions and fines in the amount of up to R\$50 million. However, Law No. 14.010/20, published on June 10, 2020, extended the exemption from of these penalties to August 1, 2021. Notwithstanding the exemption of administrative penalties, failure to comply with any provisions of such legislation entails the following risks: (i) the filing of lawsuits claiming damages resulting from violations, based not only on LGPD, but also on sectorial legislation that are still in force; and (ii) the application of penalties provided for in the Consumer Defense Code and the Brazilian Internet Act by relevant consumer protection agencies, such as the Federal District Prosecutor's Office and the National Consumer Secretariat (*Secretaria Nacional do Consumidor*), since these authorities have competence to examine allegations of violation of data protection legislation by companies, as well as to enforce and to assess applicable penalties. These authorities have already acted towards this, even before the effectiveness of the LGPD and the structuring of ANPD, especially in cases of security incidents resulting in improper access to personal data. As of the date of this annual report, the ANPD has not yet been completely structured by the Brazilian government and has not yet issued regulatory guidelines for the LGPD. On October 20, 2020, the Federal Senate approved the names of those nominated to compose ANPD's board.

The LGPD significantly transformed the data protection system in Brazil and is was inspired on European legislation (the General Data Protection Regulation - "GDPR"). The LGPD establishes detailed rules for the collection, use, processing and storage of personal data. It will affect all economic sectors, including the relationship between customers and financial institutions, employees and employers and other relationships in which personal data is collected, both in the digital and physical environment. Further, the ANPD, whose establishment is still pending, is charged with overall responsibility to: (i) ensure the protection of personal data, in accordance with the law; (ii) deliberate, at an administrative level, on a terminative character, upon the interpretation of the LGPD; (iii) supervise the compliance with, and assess penalties in the event of data processing performed in violation of, LGPD; (iv) implement simplified mechanisms for recording complaints about the processing of personal data in violation of the LGPD; and (v) inform the competent authorities the criminal offenses of which it becomes aware. Law No. 13,853 also assigned to the ANPD the exclusive competence to assess penalties provided for by the LGPD. However, other authorities, such as the Federal District Prosecutor's Office and the *Secretaria Nacional do Consumidor* (National Consumer Secretariat), have competence to examine evidence of violation of data protection legislation by companies, as well as to file and to assess applicable penalties.

Any failure by us to adhere to the LGPD or any further privacy laws or regulations enacted or approved in Brazil could adversely affect our reputation, business, financial condition or results of operations.

***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 currently substantially withdraw all of our water supply from surface sources from rivers and reservoirs, with a small portion being withdrawn from groundwater. Our reservoirs are filled by impounding water from rivers and streams, by diverting the flow from nearby rivers, or by a combination of both methods. We have 229 dams for water supply purposes, which is the total amount of dams used by us. Our operations may be hampered by numerous factors, including unexpected or unusual geological and/or geotechnical operating conditions, industrial accidents, floods or droughts or other environmental occurrences that could result in structural damages and eventually rupture our reservoirs, dams and other facilities or equipment.

Our water and sewage pipes are susceptible to degradation caused by factors such as age, intense traffic, population density and commercial and industrial development, which may provoke accidents in the networks and affect the regular provision of our services, impacting our customers and the environment. In particular, the increasing degradation of watershed areas (*Mananciais*) may affect the quantity and quality of water available to meet demand from our customers. 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."

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, other environmental damages, the loss of prime materials and damage to our reputation. 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 expansion activities will be reduced. See also “–Risks Relating to Our Business– Compliance with environmental laws and environmental liability could have a material adverse effect on us” and “Item 4.B. Business Overview–Insurance.”

***We may face difficulties in collecting overdue amounts owed to us by municipal government entities.***

As of December 31, 2020, our total trade receivables were R\$3,608.6 million. Of this amount, the municipalities of Mogi das Cruzes and São Caetano do Sul, for which we provide water on a wholesale basis, owed us R\$22.4 million, and certain municipal government entities owed us R\$806.9 million. Of the total amount owed by municipalities, R\$15.2 million was overdue by between 30 and 360 days and none was overdue by over 360 days.

Certain entities associated with municipal governments for which we provide services also do not make regular payments. We cannot guarantee if or when these entities will make payments on a regular basis or pay the amounts they owe us. If these municipalities and related entities do not pay the amounts they owe us, our business, financial condition or results of operations may be adversely affected.

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

***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. The ten largest companies in terms of market capitalization represented approximately 51.6% of the aggregate market capitalization of the B3 as of December 31, 2020.

***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, which entitles registered foreign investors (the “4,373 Holder”) 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.

Further, during the campaign, the then main contender and current Minister of Economy proposed taxing dividends paid by Brazilian companies and changes in taxation method of interest on equity. If this campaign promise 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.