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- the effects of the agreement for provision of water and sewage services in the city of São Paulo, which we executed with the State and the city of São Paulo considering that ARSESP has limited the pass-through to tariff of values 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 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;" and
- as well as the potential impacts of the New Tariff Structure to be implemented.

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 ADVISERS

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

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:

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- 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;
- water and electricity rationing;
- 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 infectious 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.

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 us. 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 (*Polícia Federal*), the CVM, and other Brazilian public entities who are responsible for corruption and cartel investigations. 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. 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 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.

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Government interference in the economy, or the results of future elections may impact adversely the macroeconomic indicators mentioned (see “Item 3.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”), affecting market activity and us.

Also, presidential elections will be held in Brazil in 2022. Historically, in election years, especially presidential elections, there has been political instability, which if repeated, may have an adverse effect on Brazilian capital markets, resulting in reduced levels of foreign investment in Brazil.

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 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*), or IGP-M index, recorded inflation of 17.78% in 2021, 23.1% in 2020, and 7.30% in 2019. The Special Clearing and Settlement System (*Sistema Especial de Liquidação e Custódia*), or SELIC, the official overnight interest rate in Brazil, was 9.15%, 1.90% and 4.40% at the end of 2021, 2020 and 2019, respectively. 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 reduced the SELIC target rate to 2% between August 2020 and March 2021, after which it was raised numerous times, most recently to 11.75% to mitigate the increase in inflation, 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 10.06%, 4.52%, and 4.31% during 2021, 2020 and 2019, respectively. The IPCA in 2021 reached its highest accumulated annual inflation since 2015, according to data provided by the Brazilian Institute of Geography and Statistics (*Instituto Brasileiro de Geografia e Estatística - IBGE*). If Brazil continues to experience 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, 2019, the exchange rate was R\$4.03 to US\$1.00, representing a depreciation of 4.0% as compared to the rate prevailing as of December 31, 2018. 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. Further, during 2021, the *real* was very volatile and depreciated by 7.4% against the U.S. dollar by year-end. As of April 22, 2022, the commercial selling rate as reported by the Central Bank was R\$4.73 per US\$1.00. There can be no assurance that the *real* will not depreciate further against the U.S. dollar.

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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 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 will also increase our total debt, what 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\$3,296.1 million as of December 31, 2021, and we anticipate that we may incur additional amounts of foreign currency denominated debt in the future. 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 2021 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 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 the securities.

Rating agencies regularly evaluate Brazil and its sovereign ratings, taking into account a number of factors, including macroeconomic trends, fiscal and budgetary conditions, indebtedness and the prospect of change in 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. In January 2018, Standard & Poor’s lowered Brazil’s credit rating to BB- with a stable outlook, which it confirmed in November 2021. In February 2018, Fitch downgraded Brazil’s credit rating to BB-, which it reaffirmed in December 2021 with a negative outlook. Moody’s rating is Ba2 with a stable outlook, which was reaffirmed in December 2021.

As a result of the downgrading, the trading price of securities of Brazilian issuers was adversely affected. An extension or worsening of the current Brazilian recession could lead to additional downgrading.

We cannot assure you that rating agencies will maintain Brazil’s sovereign credit ratings, and any further downgrading of Brazil’s sovereign credit ratings may adversely affect the perception of risk of investors and, as a result, increase of the future debt issuances cost 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.

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.

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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.

In February 2022, the Russian president Vladimir Putin announced the beginning of a special military operation in the Donbas region in eastern Ukraine, which resulted in an armed conflict between these countries. Since then, other European countries and the United States have imposed packages of financial and economic sanctions that, in various ways constrain: (i) transactions with numerous Russian entities and individuals; (ii) transactions in Russian sovereign debt; and (iii) investment, trade, and financing to, from, or in certain regions of Ukraine. In addition, the military conflict between Russia and Ukraine has increased many commodity prices, such as the prices of energy and oil. While the invasion continues toward major Ukrainian cities, the United States, the European Union and the United Kingdom and other jurisdictions are likely to impose additional material, financial and economic, sanctions and export controls, including against the Russian energy sector, in which the country is an important global producer. Such actions and sanctions have impacted and may continue to impact adversely and materially the Russian economy and, consequently, the economies of other countries that maintain commercial relations with Russia (including Brazil). Additionally, it is not possible to predict whether additional sanctions against Russia will be applied and, if so, to what degree these sanctions will impact Brazil's economy. Nor is it possible to predict the extent of Russian reaction to these sanctions. All this tension caused by the conflict in Ukraine has already triggered an inflationary process on commodities (mainly oil), which may significantly impact the business and the market price of the shares of companies all over the world, including us. Further, this conflict has caused substantial daily oscillations in the global capital markets (including in Brazil), which may have a material adverse effect on our business and financial performance, including through higher volatility in foreign currency exchange rates, higher inflation rates in Brazil, as well as increases in exchange rates.

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 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.

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, 2021, 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, 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. 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 changes to our Board of Directors or Executive Officers and whether such changes may have a material adverse effect on our business, financial condition or results of operations, especially during new elections periods.

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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.

On September 29, 2021, the State Privatization Program's Board (*Conselho Diretor do Programa Estadual de Desestatização - CDPED*), which has authority over our corporate reorganization plan, in view of the New Sanitation Regulatory Framework (Federal Law No. 14,026/2020), as well as State Law No. 17,383/2021, which established the Regional Unit for Drinking Water Supply and Sewage Services for the State of São Paulo, unanimously resolved: (i) to recommend the hiring by the Treasury and Planning Secretariat (*Secretaria da Fazenda e Planejamento do Estado de São Paulo*), of the International Finance Corporation - IFC, to provide consulting services to the State, consisting in the identification and analysis of possible alternatives for restructuring our share capital; and (ii) at each relevant stage of the work to be carried out by the IFC, the matter should return to the CDPED for evaluation and continuation. As of the date of this annual report, a decision has not been made on the model for our potential corporate reorganization. Also, election for state governor will be held in 2022 which lead to further uncertainty about any future plans for our corporate reorganization. We cannot assure that CDPED will give us guidance on our potential corporate reorganization, the terms of such guidance, or that any potential reorganization will not have a material adverse effect on our business, financial condition or results of operation. See “—Regulatory Risks—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.”

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

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, 2021, the State owed us R\$76.6 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\$1,375.1 million as of December 31, 2021. 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\$741.9 million which is recorded as related-party receivables. See note 11(a) to our 2021 financial statements.

In addition, as of December 31, 2021, we had a provision for an actuarial liability in the amount of R\$2,192.1 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.

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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 continued in 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, including Brazil, and travels have 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 and partially in 2021, 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 tariffs, leading to a reduction in the total average tariff, in addition to increases in delinquencies, which continued through 2021. Accordingly, these changes in consumption patterns impacted the total volume of water billed and the average tariff, which had an impact on our revenues and results of operations.

In 2020, 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. This pattern of consumption caused material 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. In 2020, 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 from April 1, 2020, until September 15, 2020. Due to the approval of a state of public calamity mentioned above, the tariff readjustment published by ARSESP in April was postponed and the tariff readjustment of 3.4026%, which included a compensatory adjustment for the postponement of the annual tariff readjustment, was only applied on August 15, 2020.

Additionally, in the context of the COVID-19 pandemic, on February 3, 2021, our Board of Executive Officers approved certain measures for commercial clients aiming to help them maintain their businesses during the COVID-19 pandemic and to pay their debts in the future. These measures for commercial customers were in effect until August 2021. We cannot assure that other similar measures will not be adopted by our executive board or that these clients will be able to honor their debts after any grace period granted.

With COVID-19 vaccines becoming more broadly available, many employees have returned to on-site work. However, we cannot guarantee that future developments regarding the spread of COVID-19 or the emergence of new variants will not result in a return to remote working arrangements and the closure of non-essential commercial, industrial, as well as public, establishments. In addition, several companies announced that they would continue to employ partial remote working arrangements which could result in a new consumption pattern. This could affect our revenues since the tariffs charged to customers in the residential category are lower than in the commercial, industrial and public categories. In addition, we continued to experience increased delinquencies in 2021. In 2021, our allowance for doubtful accounts increased by R\$198.9 million, which represents an increase of 44.7% compared to the same period of 2020. For more information, see Note 10(c) and 29 to our financial statements included in this annual report.

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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. The extent to which COVID-19 will continue to impact our business, operations, and financial condition, will depend on future developments, which are uncertain and cannot be predicted. Accordingly, we currently cannot estimate the potential impact on our financial position, results of operations and cash flows. However, all these uncertainties and the factors mentioned above could have a material adverse effect on our results of operations and financial condition.

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 2020-2021 rainy season, which ended in September 2021, recorded below-average rainfall compared to the expected long-term average. During this period, the Cantareira System received 70.4% of the expected rainfall, while the Alto Tietê System received 71.6% and the Guarapiranga System received 76.8%. Water inflow was also below average in the three main systems that supply the metropolitan region of São Paulo, with the Alto Tietê System (our second largest System) recording inflows close to its minimum historic levels between April and September. The 2019-2020 rainy season, which ended in September 2020, also had below-average rainfall compared to the expected long-term average. During this period, the Cantareira System received 74% of the expected rainfall, while the Alto Tietê System received 72% and the Guarapiranga System received 68%.

The 2021-2022 rainy season, which started in October 2021, recorded below-average rainfall compared to the expected long-term average. From October 2021 to March 2022, the Cantareira System received 84.5% of the historical average rainfall, while the Alto Tietê System received 75.5% and the Guarapiranga System received 85.2%. The total reservoir storage was 59.5% in March 2022, compared to 59.6% in 2021. Water inflow was also below average in some of the main systems that supply the metropolitan region of São Paulo, with the Cantareira System (our largest System) recording inflows of 68% of the historical average and Alto Tietê System recording inflows of 84% of the historical average in the first months of the 2021-2022 rainy season.

In 2014 and 2015 we experienced a severe drought in the metropolitan region of São Paulo, the most severe drought in the last 80 years to date, 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 water production system in the metropolitan region of São Paulo. 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 at that moment 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. 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. As a result of this new behavior and ongoing awareness, the volume of water billed to our clients did not return to the volume of water billed before the water crisis in 2013. 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.

There is a risk that there might be further period of drought similar or more severe to those of 2014-2015 and 2020-2021 in the future, forcing us to adopt similar or more severe measures as those adopted in 2014-2015, what can cause a material impact on consumption habits. These uncertainties could have a material adverse effect on our results of operations and financial condition.

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 44.5% of our gross operating revenues from sanitation services (excluding revenues relating to the construction of concession infrastructure) in the year ended December 31, 2021.

On June 23, 2010, the State and the city of São Paulo executed an agreement in the form of a convention (“*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 the *convênio*, we executed a service contract on June 23, 2010, with the State and the city of São Paulo, to provide these services for the following 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 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 a further discussion of the principal terms of the *convênio* and the principal terms of the service contract we executed in accordance with the *convênio*.

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On May 9, 2018, ARSESP announced the result of the Second Ordinary Tariff Revision and since 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, which was concluded in April 2021, our only contract that provides for this and complies with ARSESP's requirements is with the municipality of São Paulo. Accordingly, 4% of the funds transferred to the São Paulo Municipal Fund for Environmental Sanitation and Infrastructure were transferred to tariffs for the revision cycle ending in April 2021. 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 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. 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. As established by ARSESP, 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.

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 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.

From 2010 to December 31, 2021, we transferred approximately R\$4.6 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."

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. If the concessionaire and the municipality decide to transfer amounts greater than 4% of revenue, the excess will not be recognized as a financial component of the tariffs and will be restricted to the municipality.

On July 13, 2021, the Municipality 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 since Deliberation No. 794/2018, with a view to, in summary: (i) the recognition of illegality of the transfer of the charge of 7.5% of our gross revenue, related to FMSAI, the water and sewage tariff practiced in the City of São Paulo; (ii) establishing our liability for 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 Municipality 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. 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.

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 (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 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.

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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– Tariffs - 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 m³/month and differences in prices per range, with progressive increases in the price as consumption increases. In 2021, 2020 and 2019, the average price calculated for the regional systems was approximately 20% below the average price of the São Paulo metropolitan region. See “Item 4.B. Business Overview–Tariffs –Tariff Structure.”

The New Tariff Structure (as defined in “Item 4.B. Business Overview–Tariffs–New Tariff Structure”) 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 New Tariff Structure was expected to be adopted as of 2022. However, on March 17, 2022, ARSESP published Resolution No. 1,278 relating to the tariff readjustment, which also postponed the application of the New Tariff Structure to an undetermined date.

The transition period during which the New Tariff Structure will be implemented may lead to uncertainties as well as unpredictability about the revenues we expect to earn with the new structure, 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 the 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\$23.8 billion in the period from 2022 through 2026. In 2021, we recorded R\$5 billion in capital expenditures. We funded and 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.

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 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 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 billed as well as in the revenue derived from water supply services. For further information, see “3 Item 3.D. Risk Factors– Risks Relating to Our Business–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 operations. For further information, see “Item 3.D. Risk Factors–Risks relating to Our Business–Adverse weather conditions may interrupt the supply of electricity and water and adversely impact our operations” and “Item 4.B. Business Overview–Energy Consumption.”

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We cannot predict all of the effects of extreme weather events, therefore making it difficult to estimate the resources needed to address these mitigations. It is possible that as a result of these difficulties to predict events, 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.

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 emission, 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 greenhouse gas emissions and to foster climate resilience.

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 greenhouse gases 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 adequate and improve our operations to achieve more sustainable processes and to reduce the emission of Greenhouse Gases ("GHG"); or (ii) to implement new facilities and equipment for biogas utilization and its subproducts, considering the dispersion and diversity of processes in our operational facilities. Further, we may also incur in new expenditures to prevent or correct the physical effects of extreme weather events. 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."

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 of untreated sewage received in our operations. Also, we may experience accidents such as leaks or broken pipes that can lead to liability for environmental damages.

We are party to 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, 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 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 business, financial conditions 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, 2021, the estimated total claims asserted amounted to R\$54,071.6 million (net of R\$173.7 million in escrow deposits), including contingent liabilities. We have recognized provisions totaling R\$1,448.5 million (net of escrow deposits) as of December 31, 2021. 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 20 to our 2021 Financial Statements included in this annual report.

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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. Due to 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 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 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.

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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 Personal Data Protection - LGPD (Law No. 13,709/2018) and their related regulations, including regulations to be enacted by the Brazilian National Data Protection Authority (ANPD).

The LGPD came into effect on September 18, 2020 and provides a comprehensive regulation for the use of personal data in Brazil. The legislation provides for the application of administrative sanctions (art. 52, 53 and 54), which came into effect on August 1, 2021. If we do not carry out the data processing operation in accordance with the LGPD, we may be subject to sanctions, individually or cumulatively, of warning, obligation to disclose the incident, temporary blocking and/or deletion of personal data, suspension, prohibition, partial or total, of the exercise of the activity of processing personal data and fine of up to 2% (two percent) of the company, group or conglomerate’s revenue in Brazil in its last fiscal year, excluding taxes, up to the global amount of R\$50,000,000 (fifty million reais) per infringement. The application of the sanctions provided for in the LGPD is exclusively the responsibility of the National Data Protection Authority – ANPD.

We may also be held liable for material, moral, individual or collective damage caused by non-compliance with the obligations established by the LGPD and other data protection legislation, being subject to risks, such as (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 before the validity of the LGPD and the complete structuring of the ANPD, especially in cases of security incidents that result in improper access to personal data.

The LGPD significantly transformed the data protection system in Brazil and it was inspired on European legislation (the General Data Protection Regulation – “GDPR”).

The LGPD establishes detailed rules for the collection, use, processing, storage and disposal of personal data. It affects all economic sectors, including the relationship between customers and financial institutions, employees and employers and other relationships in which personal data is processed, both in the digital and physical environment. The ANPD is the agency 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 apply 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.

Any failure by us to adhere to the LGPD or any further privacy laws or regulations enacted or approved in Brazil also carries the risk of individual or collective lawsuits, claim of compensation for damages arising from violations, especially in cases of security incidents that result in unauthorized access to personal data. The application of penalties, the publicizing of the infraction or the imposition of obligations to indemnify for failures in the protection of personal data and inadequacy of the LGPD could adversely affect our reputation, and our results and, consequently, the value of our shares.

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 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 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 affect the regular provision of our services, impacting our customers and the environment. Regarding sanitary sewage, our sewage pipes may be obstructed due to misuse resulting from the improper release of solid waste and rainwater in the sewage systems.

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 arising from environmental and social damages, other environmental and social damages, the loss of prime materials and damage to our reputation. See “Item 4.B. Business Overview–Water Operations–Water Resources.”

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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.”

Adverse weather conditions may interrupt the supply of electricity and water and adversely impact our operations.

Electricity and the price we pay for it has a significant impact on our operating results. Any material interruptions in the supply of energy could have a considerable negative effect on our activities, our financial situation, our operating results 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. In 2021, Brazil experienced a critical hydrological year with below-average rainfall compared to the expected long-term average, which increased the electricity price and caused a material impact on our operating results. The situation requires constant monitoring and the Federal Government will keep monitoring the system in 2022 and controlling the demand through tariff flags, which are a surcharge levied on electricity consumption in the Regulated Contracting Environment and in the Free Contracting Environment, raising the System Service Charge. Any resulting increases in the price of energy could have a material impact on our business, financial condition or results of operations. Also, shortages of electric energy could lead to instability in water supply and sewage collection and treatment services, which could damage our reputation and operations. In addition, as we are one of the largest consumers of electricity 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 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.”

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

As of December 31, 2021, our total trade receivables were R\$4,198.4 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\$28.0 million, and certain municipal government entities owed us R\$865.7 million. Of the total amount owed by Municipalities, R\$20.4 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.

Regulatory Risks

The complexity of the process of demonstrating our economic and financial capacity established under the terms of Federal Decree No. 10,710/2021 and Federal Decree No. 10,588/2020, as amended by Federal Decree No. 11,030/2022, may have an adverse effect on our business, financial conditions or operating results.

Law No. 11,445/2007, as amended by Law No. 14,026/2020, provided in article 11-BS1 that contracts in force that did not have the new universalization targets that guarantee the service of 99% of the population with drinking water and 90% of the population with sewage collection and treatment by December 2033 had to include these targets until March 31, 2022.

Further, according to article 10-B, service operators must comply with financial and economic parameters that will measure their ability to provide sanitation services and meet the service standards established by law in a timely manner.

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On June 1, 2021, Federal Decree No. 10,710/2021 was enacted, establishing the methodology for demonstrating the economic and financial capacity of public service providers for drinking water supply or sanitary sewage. Article 10 of this decree stipulates that an application for proof of economic-financial capacity must be submitted to the regulatory entity responsible for inspecting the contracts by December 31, 2021. We submitted the request related to this requirement to ARSESP. The regulator has now recognized our economic and financial capacity for the 370 Municipalities that are part of URAE1-Southeast, with documentary reservations for six Municipalities that, until the date of delivery of the documentation to ARSESP, had not agreed to the amendments to their contracts. Until March 31, 2022, we executed 240 amendments to the contracts with the Municipalities under our operations, with the aim to incorporate or adapt the universalization of the goals required by Section 11-B of Federal Law No. 11,445/2007, amended by Federal Law No. 14,026/2020. The Municipalities that have not yet formalized the respective amendments represent approximately 1.4% of our total annual revenue. On April 1, 2022, Federal Decree No. 11,030/2022 was enacted, amending the provisions of Federal Decree No. 10,588/2020, which, in turn, provided for the regularization of operations and technical and financial support from the Brazilian Government and the respective allocation of federal resources in the sanitation sector. We cannot assure that the entirety of our contracts will be deemed “regular” by the regulator or by the Municipalities.

The adequacy of our contracts that were amended will depend on the analysis by the federal regulator (ANA), according to Federal Decree No. 10,588/2020. Accordingly, as of the date of this annual report, we cannot measure the effects of Federal Decree No. 10,710/2021 and are currently not in position to assess whether its implementation will have an adverse effect on our business, financial condition, or results of operations.

According to the New Legal Framework for Basic Sanitation, ANA will be responsible for issuing reference norms whose non-compliance by Municipalities or sanitation operators will prevent them from accessing financing and sources of funds managed or operated by the Federal Government.

Considering that the rules established by ANA may conflict with the rules in force of subnational regulatory agencies, including ARSESP, we cannot guarantee that we will have full access to financings and resources managed or operated by the Federal Government. The lack of this access may have an adverse effect on our business, financial condition or results of operations.

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, except in the Municipalities where the State shares ownership with the Municipalities, any current expired contract we hold with Municipalities can only be renewed through a bidding process under Law No. 8,666/1993, as amended.

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 had to establish them until March 31, 2022. Pursuant to current legislation, except in the Municipalities where the State shares ownership with the Municipalities 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. Prior to the implementation of 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 is no longer available to us, 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 may be replaced with 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, within 180 days, manifest their opinion if in disagreement, after which the proposal will be considered as approved. However, prior approval by the public entities that executed the contract related to the program is only required if the majority shareholder requests an amendment to the term, purpose or certain other sections of the contract at the time of the change of control. Regardless of that, most of our contracts have a termination clause in the event of a change in our control. We cannot assure you that all the public entities holding the service will agree to any proposed amendments to the contracts 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 a takeover 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. Under Federal Decree No. 10,588/2020, as amended by Federal Decree No. 11,030/2022, the Municipalities, and regulator are responsible for identifying potential contractual irregularities and adopting the required actions. Accordingly, we cannot assure all our contracts are complying with the new rules and will be not terminated by the Municipalities. 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 service provider. 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 norms on the methodology for calculating indemnities due to investments made and not yet amortized or depreciated.

On August 31, 2021, ANA published the opening of Subsidy Taking No. 01/2021, intended to collect contributions from society for the preparation of the reference norms for the methodology of calculating asset indemnities for the water and sewage segments.

Based on contributions received from society and other studies, ANA will prepare the Regulatory Impact Analysis Report (RIA) related to this reference norms for a second stage of social participation, which will include a public consultation. Future concession contracts will have their indemnification methodology defined together with the other contractual rules provided for in ANA's reference norms. We do not know the effects that the asset indemnity calculation methodology will have on our business.

The New Legal Framework 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 are 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 2021 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 defers certain regulations and definitions to a later date, which could have a significant impact on our operations. Moreover, ANA was assigned with the authority to edit reference norms to serve as guidelines to be observed by other regulatory agencies, pursuant to Article 23, of the Law No. 11,445/2007, thereby potentially reducing their autonomy. If these national 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.

Among the supervening definitions, the regionalized provision of sanitation services stands out as one of the requirements of the new legislation that allows providers to have access to the technical and financial resources of the federal government.

This model of providing regionalized sanitation provides for the establishment of regional sanitation units by state governments within one year of enactment of the law. In the state of São Paulo, State Law No. 17,383 was enacted on July 5, 2021, creating four URAEs. The Municipalities operated by us coincide with URAE 1 - Southeast. On December 2, 2021, State Decree No. 66,289 was issued, which deals with the adhesion of Municipalities to the URAEs. We cannot assure voluntary adhesion by all Municipalities that are part of URAE1 - Southeast and their effect on our operations.

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On January 4, 2022, ANA initiated Public Consultation No. 01/2022 regarding the proposal for a reference standard on indicators and standards of quality, efficiency and effectiveness for evaluating the provision, maintenance and operation of water supply and sewage systems. The outcome of this public consultation is still uncertain, as well as any new ANA reference standards that may be edited and we cannot guarantee that our operations will not be materially affected. 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.”

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 42.6% of the aggregate market capitalization of the B3 as of December 31, 2021.

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, (the “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.

Further, during the 2018 presidential 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.

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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 ADSs 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* rules, 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, or the 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 depositary, 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 depositary as to voting will depend on the timing and procedures for providing instructions to the depositary, either directly or through the holder's custodian and clearing system. The deposit agreement also provides that if the depositary 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 Depositary 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 ADS 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 ADS, may decrease significantly. Such issuances and sales also might make it more difficult for us to issue shares or ADS 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, for a variety of reasons which could have the effect of diluting existing shareholders and ADS holders or lead to a change of control. See "—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."