

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Risks Relating to Brazil

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

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

- expansion or retraction of the Brazilian economy;
- the regulatory environment related to our business operations and concession agreements;
- interest rates and monetary policies;
- exchange rates and exchange controls and restrictions on remittances abroad;
- currency fluctuations;
- increased unemployment;
- availability of credit;
- changes in labor regulations;
- political elections and social and political instability;
- inflation;
- liquidity of the Brazilian capital and lending markets;
- tax and regulatory policies and laws;
- economic and social instability;
- water and electricity shortages and rationing;
- the impact of widespread health developments, such as COVID-19 and any variants and the Brazilian government's response to them and, *inter alia*, its impacts on water consumption, labor laws and other regulations affecting our industry. For more 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.

Changes in Brazilian tax law or conflicts in its interpretation may adversely affect us.

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

There are currently proposals in the Brazilian Congress to implement a tax reform. Among the proposals under discussion, is the possibility of a complete change in the taxation system for consumption, replacing certain federal, state and/or municipal taxes, such as, for example, the tax on manufactured products (*Imposto sobre Produtos Industrializados*), the social integration program (*Programa de Integração Social*), the contribution for social security financing (*Contribuição para o Financiamento da Seguridade Social* - "COFINS"), the circulation of goods and services tax (*Imposto sobre Circulação de Mercadorias e Serviços*) and the service tax (*Imposto Sobre Serviços*), with one or more taxes levied on consumption. We also highlight Bill No. 2,337/2021, which proposes significant changes to the income tax legislation, such as the gradual decrease of the income tax rate for companies from 15% to 12.5% in 2022 and 10% in 2023.

Uncertainty about changes in tax regimes may have an adverse effect on our business, results of operations and financial condition.

Ongoing political instability has adversely affected the Brazilian economy and may have an adverse effect on our financial condition and results of operations.

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

Brazil has experienced amplified economic and political instability, as well as heightened volatility, as a result of various ongoing investigations by the Brazilian Federal Prosecutors' Office (*Ministério Público Federal*), the Brazilian Federal Police (*Policia Federal*), the CVM, and other Brazilian public entities who are responsible for corruption and cartel investigations. In addition, certain foreign entities, such as the U.S. Department of Justice, the SEC and the Office of the Attorney General of Switzerland (*Bundesanwaltshaft*), 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.

Government interference in the economy may adversely impact the macroeconomic indicators mentioned (for more information, 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.

In October 2022, Luis Inácio Lula da Silva was elected president of Brazil for a four-year term beginning in 2023. The uncertainties regarding the new government's ability to implement changes related to monetary, fiscal and social security policies, especially given that the federal legislative branch is controlled by opposition parties, as well as the post-election political atmosphere, with significant protests and strikes, may contribute to economic instability. These uncertainties and any new measures that the new government may implement may increase the volatility of the Brazilian securities market.

The President has the power to impose policies and issue governmental acts regarding the Brazilian economy that may affect our operations and financial performance. We cannot predict what policies the new President elect will impose, much less whether such new policies or changes in current policies will have an adverse effect on our business or the Brazilian economy.

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In addition, 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. For example, presidential elections occurred in October 2022, with Luiz Inácio Lula da Silva defeating Jair Messias Bolsonaro, in one of the closest presidential races in history. In the aftermath of the 2022 election results, there were mass protests and demonstrations throughout Brazil by supporters of former president Jair Bolsonaro disputing the election results. On January 8, 2023, protesters stormed government buildings in Brasília, the country's capital, including the Congress, the Supreme Court and the Presidential Palace, which prompted the Supreme Court to order participants and certain politicians to be imprisoned and resulted in new investigations. It is unclear whether this heightened state of political and social tension will dissipate or intensify in coming months as the country awaits definition regarding the political and economic agenda of the new administration, which could contribute to increased macroeconomic and political instability.

Historically, the political landscape in Brazil has influenced the performance of the Brazilian economy. In particular, political crisis have affected investor confidence as well as public opinion, which has adversely affected the economic development in Brazil and, consequently, may impact the trading price of our common shares and ADSs.

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 - "IGP-M"*) index, recorded inflation of 5.45% in 2022, 17.78% in 2021 and 23.14% in 2020. The Special Clearing and Settlement System (*Sistema Especial de Liquidação e Custódia - "SELIC"*), the official overnight interest rate in Brazil, was 13.65%, 9.15% and 1.90% at the end of 2022, 2021 and 2020, 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 13.75% 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 - "IPCA"*), were 5.79%, 10.06% and 4.52% during 2022, 2021 and 2020, respectively. In 2021, the IPCA reached its highest accumulated annual inflation since 2015, according to data provided by IBGE. In 2022, the accumulated inflation slowed down compared to 2021. 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, 2020, the exchange rate was R\$5.19 to US\$1.00, representing a depreciation of 28.9% as compared to the rate prevailing as of December 31, 2019. During 2021, the *real* was very volatile and depreciated by 7.4% against the U.S. dollar by year-end. During 2022, there was an appreciation of the *real* by 6.5% against the U.S. dollar and by 18.4% against the Japanese Yen. As of April 19, 2023, the commercial selling rate as reported by the Central Bank was R\$5.0467 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 B3, as well as the U.S. dollar equivalent of any distributions we make in *reais* with respect to our common shares.

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

In the event of a significant devaluation of the Brazilian *real* in relation to the U.S. dollar or other currencies, our ability to meet our foreign currency denominated obligations could be adversely affected because our tariff revenue and other sources of income are denominated solely in *reais*. In addition, because we have debt denominated in foreign currencies, any significant devaluation of the *real* will increase our financial expenses as a result of foreign exchange losses that we must record. This would also increase our total debt, which could lead us to breach any debt/EBITDA covenants we are subject to in certain financings. We had total foreign currency denominated debt of R\$2,775.8 million as of December 31, 2022, 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 2022 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 periodically evaluate Brazil and its sovereign ratings, based on a number of factors, including macroeconomic trends, fiscal and budgetary conditions, debt metrics and the prospect of changes in any of these factors. Downgrades in Brazil's credit rating can lead to downgrades in our credit rating and increase the cost of our indebtedness as investors may require a higher rate of return to compensate a perception of increased risk. Brazil lost its investment-grade status from all three major rating agencies (Standard & Poor's, Moody's and Fitch) in 2015 and, consequently, the trading prices of securities in the Brazilian debt and equity market were negatively affected.

The latest update regarding Brazil's sovereign risk ratings made by global rating agencies are: (i) Moodys reaffirmed Brazil's sovereign rating at Ba2 and maintained the outlook stable according to the last report published on April 12, 2022; (ii) Fitch maintained the rating at BB- with a stable outlook according to the report published on December 20, 2022; and (iii) S&P Global followed the same path as the previous ones, reaffirming the rating at BB- with a stable outlook, according to the report published on June 15, 2022.

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

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

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

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

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. 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.

The Russia and Ukraine conflict has led to an increase in fuel and gas prices. If this continues simultaneously with a possible appreciation of the U.S. dollar, it would put additional pressure on inflation and could hinder the Brazilian economic recovery. The global supply of agricultural commodities was also impacted, and in case there is an increase in the price of such commodities, the demand for Brazilian production would increase, thus raising export rates and increasing domestic prices. Such a scenario could bring uncertainty for the global economy and could negatively impact the Brazilian economy and inflation levels.

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

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

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

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

Risks Relating to Our Control by the State of São Paulo

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

As the 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, 2022, 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 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 between March and September, 2020, for all municipalities we serve.

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. Upon Tarcisio Gomes de Freitas assuming the governance of the State of São Paulo, the São Paulo state government replaced all of our executive officers.

On March 27, 2023 we published our management proposal setting out the matters to be discussed at our Ordinary and Extraordinary General Shareholders' meeting to be held on April 28, 2023. In accordance with the recommendation from our controlling shareholder, we are proposing to replace all board members, except for four (the director appointed by the employees, the minority shareholders and the CEO, who is part of the Board of Directors as long as he is the CEO, and one other). These changes are subject to obtaining approval at the shareholders' meeting. We cannot predict the impact of these or any other potential future changes to the Board of Directors on our business, financial condition or results of operation and whether such changes will be the interests of other minority shareholders, including ADR holders.

Additionally, the São Paulo state government, as our controlling shareholder, may take measures related to business planning, strategies, acquisitions, asset disposals, partnerships, financings or similar transactions, that may be contrary to the interests of other minority shareholders, including ADR holders.

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 February 28, 2023, the State Privatization Program’s Board (*Conselho Diretor do Programa Estadual de Desestatização* – “CDPED”), which has authority over our corporate reorganization plan, agreed to proceed with arrangements for hiring consultancy services for the study of our privatization. On April 10, 2023, the São Paulo state government signed a contract with the International Finance Corporation (“IFC”), an agency linked to the World Bank, which will act as the advisor in this process. As of the date of this annual report, we have not received any details about the proposals being discussed for our privatization and 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.

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

We withdraw water for use in the São Paulo metropolitan region from the Guarapiranga and Billings reservoirs. Empresa Metropolitana de Águas e Energia S.A. (“EMAE”), a company that is also controlled by the State of São Paulo, 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 facilities. The plaintiffs allege that the State, in its capacity as controlling shareholder of EMAE, has acted unduly to EMAE’s detriment and in our favor. This lawsuit was dismissed, and an appeal was filed, but the Court upheld the dismissal of the claim stating that the State operated in compliance with the legal system, in the public interest. An appeal was filed with the higher courts on March 8, 2023.

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

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

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 the outbreak of pandemics such as COVID-19, as well as other catastrophes and health epidemics on a regional or global scale. Such outbreaks may result, at different levels, in the adoption of governmental and private measures, including restrictions, as a whole or in part, on the circulation and transportation of persons, goods and services and consequently, in the closure of private establishments and public offices, interruptions to the supply chain, reduction of consumption in general by the population and increased intervention in their economies.

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

Although restrictions imposed to contain the spread of COVID-19 were lifted in 2022, various companies continue to adopt partial remote working regimes. This affected the volume of sales in the commercial, industrial and public categories which would have been higher had it not been for the partial remote working policies adopted by these companies. In addition, the adverse macroeconomic impact of the COVID-19 pandemic in Brazil had a detrimental impact on many parts of Brazilian society and led to increased delinquencies which negatively impacted our results of operations. Our allowance for doubtful accounts increased by 21.5% for the year ended December 31, 2022 compared to the same period in 2021, and 43.4% for the year ended December 31, 2021, compared to the same period in 2020.

Epidemics, such as COVID-19 and any new variants, natural disasters and other catastrophes may have a negative and significant effect on the world economy and on Brazil’s economy, and include or may include reduction in the level of economic activity; currency devaluation and volatility; increase in the fiscal deficit and constraints to the capacity of the Federal Government or State Governments to make investments and payments and to contract services or acquire goods; delays in judicial, arbitral and/or administrative proceedings; imposition, even if only temporarily, of a more onerous tax treatment of our business activities; decrease the liquidity available in the international and/or Brazilian market; and volatility in the price of raw materials and other inputs, among other effects.

We cannot assure that future events, such as other health catastrophes and epidemics, will not result in the spread of contagious viruses, such as COVID-19 and other variants, that may lead to a renewed imposition of remote work regimes and the closure of non-essential commercial, industrial and public establishments. The occurrence of any of these events and their duration may have material adverse effects on our operating results and financial condition, as well as the trading price of our common shares and ADSs.

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

Our current Tariff Structure (as defined in “Item 4.B. Business Overview–Tariffs–Tariff Structure”) is based on the pricing regulation approved by State Decree No. 41,446/1996 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 price ranges for the following categories of users: (i) residential customers (Residential Normal, Residential Social and Residential Vulnerable) 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.

The New Tariff Structure (as defined in “Item 4.B. Business Overview–Tariffs–New Tariff Structure”), which was expected to be adopted as of 2022, introduces: (i) new classifications for residential customers (Residential, Residential Social, Residential Vulnerable and Residential Collective) and non-residential customers (Commercial, Commercial Assistance, Commercial Collective, Industrial and Public Wholesale, Water Truck, Sewage Cleaning Truck); (ii) different prices for water, sewage collection and treatment sewage services; (iii) the unification of our pricing schedules, which partially reduces subsidies between the regions; and (iv) the charging of a fixed component that reflects fixed costs per connection and another variable part that reflects consumption (a binomial price).

On March 17, 2022, ARSESP published Resolution No. 1,278 relating to the tariff readjustment, which also postponed the adoption of the New Tariff Structure until the resolution of outstanding definitions necessary for its implementation. On March 1, 2023, ARSESP published Resolution No. 1,388 setting out the regulatory agenda for 2023-2024. As part of this agenda, a public consultation is scheduled for the first half of 2024 which aims to implement the postponed New Tariff Structure. However, on April 6, 2023, ARSESP published Resolution No. 1,395 which revoked Resolution No 1,278 and maintained the current Tariff Structure. A new tariff structure will be implemented following the public consultation scheduled for the first half of 2024. For more information, see “Item 4.B. Business Overview–Tariffs–New Tariff Structure.”

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. For more information, see “Item 4.B. Business Overview–Tariffs–New Tariff Structure.”

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

The provision of water and sewage services in the city of São Paulo accounted for 45.1% of our gross operating revenues from sanitation services (excluding revenues relating to the construction of concession infrastructure) in the year ended December 31, 2022.

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 the *Programa de Formação do Patrimônio do Servidor Público* (“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. For more information, see “Item 7.B. Related Party Transactions–Agreement with the State and the city of São Paulo” for a further discussion of the principal terms of the *convênio* and the principal terms of the service contract we executed in accordance with the *convênio*.

Since the Second Ordinary Tariff Revision, 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 Revision, 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. For more information, see “Item 4.B. Business Overview–Tariffs,” especially “Item 4.B. Business Overview–Tariffs–Tariff Readjustment and Revisions.”

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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, in accordance with the agreement with the City of São Paulo, 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. For the third tariff cycle (2021-2024) ARSESP provided that a 4% limit will apply to transfers to municipal funds and that these transfers must be previously approved by ARSESP and recognized as part of the tariffs. 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, 2022, we transferred approximately R\$5.2 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- Establishment of ARSESP.”

On July 13, 2021, the city of São Paulo filed a public civil action against us, the State of São Paulo and ARSESP aiming, in general terms, to discuss the possibility of including the charge to the Municipal Fund for Environmental Sanitation and Infrastructure (“FMSAI”) in the tariff adjustment provided for in Resolution No. 870/2019, which in practice was already being transferred pursuant to Resolution No. 794/2018, 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 city of São Paulo requested the suspension of the process in view of the ongoing negotiations in search of an amicable solution to the dispute. On September 13, 2021, the suspension of the case for a period of ninety days was granted. On August 15, 2022, the city of São Paulo reported that the settlement negotiations were still ongoing, and, as of the date of this annual report, there have been no further developments.

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

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\$26.2 billion in the period from 2023 through 2027. In 2022, we recorded R\$5.4 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 more information on these covenants, see “Item 5.B. Liquidity and Capital Resources-Indebtedness Financing-Financial Covenants.”

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

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, 2022, the estimated total claims asserted amounted to R\$54,317.3 million (net of R\$207.6 million in escrow deposits), including contingent liabilities. We have recognized provisions totaling R\$1,610.8 million (net of escrow deposits) as of December 31, 2022. 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, reputation and image. For more information, see “Item 8.A. Financial Statements and Other Financial Information—Legal Proceedings” and Note 20 to our 2022 Financial Statements included in this annual report.

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

We are subject to anti-corruption, anti-bribery, anti-money laundering, sanctions, antitrust and other similar laws and regulations. We are required to comply with the applicable laws and regulations of Brazil, and we may become subject to such laws and regulations in other jurisdictions. There can be no assurance that our internal policies and procedures will be sufficient to prevent or detect any inappropriate practices, fraud or violations of these laws or regulations by our employees, officers, executives, partners, agents and service providers, nor that any such persons will not take actions in violation of our policies and procedures. Any violations, whether actual or perceived, by us or any of our employees, directors, officers, partners, agents and service providers of these laws or regulations or our internal policies or procedures could have a material adverse effect on our reputation, our ability to obtain financing our business, financial condition or results of operations.

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

Our business involves the collection, storage, processing and transmission of customers’, suppliers and employees’ personal or sensitive data. We also use key information technology systems for controlling water, sewage and commercial, administrative and financial operations. We may be subject to breaches of the information technology systems we use for these purposes. Experienced computer programmers and hackers may be able to penetrate our network security and misappropriate or compromise our confidential information or that of third parties, create system disruptions, or cause shutdowns. Computer programmers and hackers also may be able to develop and deploy viruses, worms and other malicious software programs that attack our products or otherwise exploit any security vulnerabilities of our products. In addition, sophisticated hardware and operating system software and applications that we produce or procure from third parties may contain defects in design or manufacture, including “bugs” and other problems that could unexpectedly interfere with the operation of the system. Due to the COVID-19 outbreak, we started to use new communication software and systems. However, we cannot assure that these systems adequately protect data and information to avoid confidentiality breaches or 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 (Law No. 13,709/2018) (“LGPD”) 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 exclusion 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 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*).

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

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. As of December 31, 2022, we had 229 dams for water supply purposes, which are all the dams used as part of our operations. Our operations may be hampered by numerous factors, including unexpected or unusual geological and/or geotechnical operating conditions, industrial accidents, floods 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, the society 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.

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

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

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

Risks Relating to Suppliers

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, financial condition, results of operations and prospects.

The Brazilian power generation system is based on hydro, thermal, wind and solar energy, with the majority of energy being produced by hydroelectric powerplants. Between September 2020 and May 2021, the National Interconnected System (*Sistema Interligado Nacional*) recorded the lowest volume of rainfall in 91 years. However, in 2022 there was a significant improvement in the volume of rainfall, reverting the water crisis experienced in 2021 and resulting in the best reservoir storage in the last 10 years. Nevertheless, it is not possible to predict rain patterns in the future. Increases in the price of energy could have a material impact on our business, financial condition, or results of operations. Moreover, electricity shortages could lead to instability in water supply and sewage collection and treatment services, which could adversely affect our reputation and operations. Additionally, as one of the largest electricity consumers in the State of São Paulo, a potential increase in electricity tariffs due to a shortage of hydroelectric power could have a significant financial impact on us.

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

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

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

The ability of these third parties to fulfill their obligations may be adversely affected by financial and economic crises or other factors. In addition, various supply chain risks, such as strikes or lockouts, loss of or damage to equipment or its components while in transit or storage, natural disasters, contagious diseases that prevent free circulation, and war, may limit the supply of products and/or equipment used in our operations and facilities.

In some cases, there are only a few suppliers for products we use, such as chlorine, sodium hypochlorite, ferric chloride, and fluosilicic acid. If any supplier discontinues the production or sale of its products, we may not be able to purchase these products from other suppliers for the same price or on the same terms. In this case, the provision of services may be significantly jeopardized, which could adversely impact our financial condition and results of operations.

Risks Relating to Our Clients

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

As of December 31, 2022, our total trade receivables were R\$4,706.3 million. Of this amount, certain municipal government entities owed us R\$982.7 million. Of the total amount owed by municipalities, R\$20.6 million was overdue by between 30 and 360 days and R\$20.7 million 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.

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, 2022, the State owed us R\$96.7 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\$1,482.1 million as of December 31, 2022. 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\$1,060.0 million which is recorded as related-party receivables. See note 11(a) to our 2022 financial statements.

In addition, as of December 31, 2022, we had a provision for an actuarial liability in the amount of R\$2,002.1 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 (“Item 3.D Risk Factors–Risks Relating to Our Clients – 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.

Risks Relating to Our Management

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

Part of the success of our operations and the implementation of our strategy depends on the knowledge, skills and efforts of our management and certain key employees – including employees in the IT area which are in high demand across all sectors. If the key members of our management or employees choose to no longer participate in the management of our business, we may not be able to find equally qualified professionals to replace them. The New Legal Framework for Basic Sanitation established that, by 2033, 99% of the population will have access to drinking water and 90% will have access to sewage treatment and collection. The increase in companies operating in our industry as a result of the New Legal Framework for Basic Sanitation, may lead members of our management or other professionals to leave us. Furthermore, the SEC has proposed mandatory clawback rules that would require listed companies, such as us, to adopt a clawback policy providing for recovery of incentive-based compensation awarded to executive officers if the company is required to prepare an accounting restatement resulting from material noncompliance with financial reporting requirements. However, these proposals have not yet been finalized and the specific long-term impact on us is not yet clear. There is the potential that new compensation rules will make it more difficult for us to attract and retain professionals by capping the amount of variable compensation compared to fixed pay, requiring the deferral of certain types of compensation over time, implementing “clawback” requirements, or making other changes deemed onerous by such professionals. The loss of members of management and the difficulty in hiring professionals with similar expertise and experience could have a negative effect on our results of operations, financial condition and our reputation.

Risks Relating to Regulatory Environment

Pursuant to the New Legal Framework for Basic Sanitation, ANA will be responsible for issuing reference norms. Any non-compliance by municipalities or sanitation operators will prevent them from accessing financings and sources of funds managed or operated by the federal government.

Provisional Measure No. 1,154 of January 1, 2023 altered the attributes and structure of ANA and delegated to the Ministry of Cities the competence to implement basic sanitation actions and programs. Further, Federal Decree No. 11,333/2023 created the National Secretariat for Environmental Sanitation, linked to the Ministry of Cities, attributing to the National Secretariat for Environmental Sanitation competencies that were previously attributed exclusively to ANA.

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On April 5, 2023, the federal government issued Decree No. 11,467/2023, which delegated to ANA the power to issue reference norms for the sanitation sector, as originally established in the New Legal Framework for Basic Sanitation. The National Secretariat for Environmental Sanitation, is now responsible for issuing the guidelines for federal basic sanitation policy. Accordingly, ANA's rules will apply to the basic sanitation sector nationwide, setting the guidelines for regulation and supervision by the regulatory entities at the state, municipal and regional level, and ensuring regulatory uniformity in the sector and legal certainty for the provision and regulation of services. ARSESP will be subject to these guidelines and will be required to incorporate any reference guidelines issued by ANA. We cannot guarantee that any potential changes to the regulatory framework of ARSESP will not 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.

The Basic Sanitation Law, which establishes national guidelines for basic sanitation, was amended by the New Legal Framework for Basic Sanitation which brought about several changes that directly affect our operations.

The current regulation prohibits the provision of public basic sanitation services by any party other than municipal and state's public administration from being formalized through program contracts, agreements, partnership agreements and other unstable instruments for the provision of public basic sanitation services. 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 they set targets for the universalization of services by December 31, 2033, and that those that did not set such targets established them by March 31, 2022. Therefore, 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, as such, we cannot guarantee that we will be able to maintain our current customer base and size of operations.

If our potential privatization is implemented through a sale of the shares the State of São Paulo holds in us, our current program-contracts may be affected. For more information, see "Item 3D. Risk Factors—Risks Relating to Regulatory Environment—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" and "Item 3D. Risk Factors—Risks Relating to Our Control by the State of São Paulo—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."

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 provides 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. 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 program contract is only required if the majority shareholder requests an amendment to the contract's 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. 11,467/2023, 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.

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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, which will be incorporated into ARSESP's regulatory framework and be applicable to all our contracts that are subject to ARSESP's supervision.

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 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 2022 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 changes 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 Basic Sanitation Law, 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.

Since 2022, ANA has been conducting public consultations. 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. On November 11, 2022, ANA initiated Public Consultation No. 008/2022 regarding the reference standard that addresses the methodology for indemnification of assets in the water and sewage sectors, which will impact our future contracts. As of the date of this annual report, there has not been an update regarding this public consultation or any other proposal for reference standards. The outcome of these public consultations and their impact on our business are still uncertain. 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 Environmental Matters and Physical and Transition Climate Risks

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

We are subject to extensive Brazilian federal, state and municipal laws and regulations relating to the protection of human health and the environment. These laws and regulations set, among others, environmental licensing 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, results of operations, reputation or image.

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 reputation, image, business, financial conditions or results of operations. For more information on these proceedings, see “Item 8.A. Financial Statements and Other Financial Information–Legal Proceedings.” For more information on investments in environmental programs, see “Item 4.A. History and Development of the Company–Main Projects of our Capital Expenditure Program,” “Item 4.B. Business Overview–Description of our Activities–Sewage Operations–Sewage Treatment and Disposal,” “Item 4.B Business Overview–Environmental Matters” and “Item 4.B. Business Overview– Environmental Matters–Environmental Regulation.” For more information on the water crisis, see “Item 4.B. Business Overview–The 2014-2015 Water Crisis.”

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 and 2021-2022 rainy seasons, which ended in September 2021 and September 2022, respectively, recorded below-average rainfall compared to the expected long-term average. This decreased rainfall compromises the recovery of water storage levels that are necessary to serve the population during dry months, which run from April to September.

The 2022-2023 rainy season, which started in October 2022, registered above-average rainfall compared to the expected long-term average in the period until the month of March, which is the period expected to have the most intense rain. However, it is not possible to predict the behavior of the rain in the future. If we undergo consecutive periods of drought we may be required to adopt measures to mitigate the impacts and maintain the water supply in our area of operation.

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 at the time, 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. For more information, 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, 2020-2021 and 2021-2022 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.

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 more information, see “Item 3.D. Risk Factors– Risks Relating to Environmental Matters and Physical and Transition Climate Risks–Droughts, such as the 2014 – 2015 water crisis, can cause a material impact on consumption habits and, consequently, on our business, financial condition or results of operations.” Extreme climate conditions may compromise our facilities’ conditions to operate and supply of inputs. Additionally, increases in air temperature could affect demand for water.

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

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

We cannot predict all of the effects of extreme weather events, making it difficult to estimate the resources needed to mitigate these effects. It is possible that as a result of the difficulty to predict these events, we may be required to make 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 expenses 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 (“GHG”) emissions, which we endeavor to comply with. Among these laws, we highlight Decree No. 65,881 of July 20, 2021, which provides for the State of São Paulo’s adherence to the “Race to Zero” and “Race to Resilience” campaigns, which aims, among other issues, to reduce GHG emissions and to foster climate resilience. Decree No. 65,881/2021 also provides for the development of the 2050 Climate Action Plan (PAC 2050) by the São Paulo state government, which will likely include benchmark targets for various sectors, including sanitation.

Decree No. 11,075 of May 29, 2022, established the National System for Reduction of Greenhouse Gas Emissions and the terms for the development of the Sectoral Plans for Climate Change Mitigation. It is not possible to establish the impact of this decree on our activities, as the provisions are subject to elaboration by the relevant Ministries.

With Brazil’s current adherence to international agreements, as well as the clear guidelines of the State government on reducing emissions, in addition to the establishment of new legislation, it is possible that we may have to invest in further actions to reduce and mitigate emissions. We may be required to adopt new standards to improve our energy use efficiency and minimize the release of GHGs for the systems already in operation or when we obtain environmental licenses for new enterprises. We may also need to incur substantial new expenditures, to comply with new climate change regulations, that may require us, for example, (i) to adapt and improve our operations to achieve more sustainable processes and to reduce the emission of GHGs; (ii) to implement new facilities and equipment for the utilization of biogas and generated sludge; (iii) to expand the use of clean and renewable energy sources and alternative fuels; or (iv) to offset GHG emissions through intensified conservation and reforestation activities. Accordingly, new climate change regulations represent a great challenge for us given the diverse and dispersed processes we use at our operational facilities and the fact that changes in process design affect both our current operations and future projects. New expenditures resulting from new climate change regulations and from the prevention or correction of effects of extreme weather could have a material adverse effect on our results of operations. For more information, see “Item 4.B. Business Overview–Environmental Matters–Climate Change Regulations: Reduction of Greenhouse Gases (GHG) Emissions” and “Item 4.B. Business Overview–Energy Consumption.”

Risks Relating to Our Common Shares and ADSs

We may 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 47% of the aggregate market capitalization of the B3 as of December 31, 2022.

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.

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

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

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.

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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 (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. For more information, see “Item 3.D. –Risk Factors Risks Relating to Our Control by the State of São Paulo – 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.”