

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:

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

Uncertainties in relation to the implementation by the government of changes relating to the monetary and tax policies, the approved pension reform and possible development arising from this reform, and other relevant legislation may contribute to economic uncertainty. We cannot predict the measures that the Brazilian 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. In October 2018, Jair Bolsonaro won the Brazilian presidential election and he took office in January 2019. We cannot predict the policies or regulations that the president of Brazil may adopt or change during his term or market reactions to these policies or regulations.

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

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

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

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

There can be no assurance that other federal or state officials or senior management of Brazilian industry will not be charged with corruption-related crimes in the *Lava Jato* or other investigations into corruption. Additional allegations, trials and convictions may lead to political instability and a decline in confidence by consumers and foreign direct investors in the stability and transparency of the Brazilian government and Brazilian companies, and may have a material adverse effect on Brazil's economic growth, on the demand for securities issued by Brazilian companies, and on access to the international financial markets by Brazilian companies.

Mr. Bolsonaro took office as president on January 1, 2019, following a period of political instability marked by the impeachment of President Dilma Rousseff and conviction, and subsequent arrest, of President Luis Inácio Lula da Silva. We cannot predict how Mr. Bolsonaro's administration may impact the overall stability, growth prospects and economic and political health of Brazil. During his presidential campaign, Mr. Bolsonaro established an agenda of privatizations, economic liberalization, and pension and tax reforms. However, there is uncertainty as to whether the Bolsonaro administration will be successful in implementing these reforms. Mr. Bolsonaro was also generally a polarizing figure during his campaign for presidency, and we cannot predict the ways in which a divided electorate may continue to impact his presidency and his ability to implement policies, reforms and manage the COVID-19 crisis, all of which could have a negative impact on our business and the market price of our common shares and ADSs. As of the date of this annual report, only the pension reform was approved by the Brazilian National Congress. There were expectations that the administrative and tax reform would be passed in 2020, however, that is more uncertain now due to the effects of the COVID-19 outbreak. For more information, 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 recent outbreak of COVID-19."

Further, during the campaign, the current Minister of Economy proposed taxing dividends paid by Brazilian companies and changes in taxation method of interest on equity. If this campaign promise were to be enacted, 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 new 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. 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.

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

Brazil has historically experienced high rates of inflation. Inflation and the Brazilian government's measures to combat it have had and may in the future have significant effects on the Brazilian economy and our business, financial condition and results of our operations. Tight monetary policies with high interest rates may restrict Brazil's growth, the availability of credit and our cost of funding. Conversely, other Brazilian governmental actions, including lowering interest rates, intervention in the foreign exchange market and actions to adjust or fix the value of the *real*, may trigger increases in inflation. The Special Clearing and Settlement System (*Sistema Especial de Liquidação e Custódia*), or SELIC, the official overnight interest rate in Brazil, was 4.40%, 6.40% and 6.90% at the end of 2019, 2018 and 2017, respectively, in line with the target rate set by the Brazilian Committee on Monetary Policy (*Comitê de Política Monetária*, or "COPOM"). However, the COPOM has frequently adjusted the interest rate in situations of economic uncertainty and to achieve objectives under the economic policy of the Brazilian government. For example, in response to the COVID-19 outbreak, the COPOM further reduced the SELIC target rate to 3.75%, where it remains as of the date of this annual report. Inflation, along with government measures to combat inflation and public speculation about possible future government measures, has had significant negative effects on the Brazilian economy, and contributed to economic uncertainty in Brazil and heightened volatility in the Brazilian securities market, which may have an adverse effect on us if such policies are reinstated.

The Brazilian annual inflation rates, as measured by the Amplified Consumer Price Index (*Índice Nacional de Preços ao Consumidor Amplo*), or IPCA, were 4.31%, 3.75% and 2.95% during 2019, 2018 and 2017, respectively. If Brazil experiences substantial inflation or deflation in the future, our business, financial condition or results of operations may be adversely affected, including our ability to comply with our obligations. In addition, a substantial increase in inflation may weaken investors' confidence in Brazil, causing a decrease in the market price of our common shares or ADSs.

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

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

The current floating exchange rate system has also contributed to significant fluctuations in the exchange rate between the Brazilian currency and the U.S. dollar and other currencies. As of December 31, 2016, the exchange rate was R\$3.26 to U.S.\$1.00, representing an appreciation of 16.5% as compared to the rate prevailing as of December 31, 2015. As of December 31, 2017, the exchange rate was R\$3.31 to U.S.\$1.00, representing a depreciation of 1.5% as compared to the rate prevailing as of December 31, 2016. As of December 31, 2018, the exchange rate was R\$3.87 to U.S.\$1.00, representing a depreciation of 17.1% as compared to the rate prevailing as of December 31, 2017. Further, during 2019, the *real* was very volatile and depreciated by 4.0% against the U.S. dollar by year-end. This volatility continued in the early months of 2020 and as of April 20, 2020, the commercial selling rate as reported by the Central Bank was R\$5.2837 per US\$1.00. There can be no assurance that the *real* will not depreciate further against the U.S. dollar.

Exchange rate fluctuations will affect the U.S. dollar equivalent of the *real* price of our common shares on the São Paulo Stock Exchange (B3 S.A. - Brasil, Bolsa, Balcão, or B3), as well as the U.S. dollar equivalent of any distributions we make in *reais* with respect to our common shares.

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

In the event of a significant devaluation of the *real* in relation to the U.S. dollar or other currencies, our ability to meet our foreign currency denominated obligations could be adversely affected because our tariff revenue and other sources of income are denominated solely in *reais*. In addition, because we have debt denominated in foreign currencies, any significant devaluation of the *real* will increase our financial expenses as a result of foreign exchange losses that we must record. We had total foreign currency denominated debt of R\$6,358.8 million as of December 31, 2019 and we anticipate that we may incur additional amounts of foreign currency denominated debt in the future. In 2019, our results of operations were negatively affected by the 4.0% depreciation of the *real* against the U.S. dollar, and the depreciation of the *real* against the Yen by 5.3%, which together led to a R\$234.0 million negative impact on our foreign exchange result, net. We do not currently have any derivative instruments in place to protect us against a devaluation of the *real* in relation to any foreign currency. A devaluation of the *real* may adversely affect us and the market price of our common shares or ADSs. For more information, see Note 5.1(a) to our 2019 financial statements.

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

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

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

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

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

As it owns the majority of our common shares, the State 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, 2019, the State owned 50.3% of our outstanding common shares. In addition, pursuant to the State Constitution of São Paulo, the Governor of São Paulo, the legal representative of our controlling shareholder, is the competent authority to make these decisions. Both through its control of our board of directors as well as by enacting State decrees, the State has in the past directed our company to engage in business activities and make expenditures that promoted political, economic or social goals, but that did not necessarily enhance business, financial condition or results of operations. For example, recently the State issued Decree No. 64,879/2020 in March, 2020 setting out emergency measures as a result of the coronavirus outbreak, including exempting customers under the “Residential Social” and “Residential Favela” categories from paying water and sewage bills for all municipalities we serve. This exemption is valid for 90 days as of April 1, 2020. The State may direct our company to act in this manner again in the future. These decisions by the State may not be in the interests of our non-controlling shareholders, including holders of ADSs. See “Item 5.A. Operating and Financial Review and Prospects—Certain Transactions with Controlling Shareholder” and “Item 4.B. Business Overview—Tariffs.”

The State of São Paulo has the power to appoint up to 9 out of the 11 members of our Board of Directors and, through them, influence the choice of a majority of the executive officers responsible for our day-to-day management. Consequently, the State is empowered to approve most matters prescribed by law. We cannot guarantee that there will not be further changes to our Board of Directors or Executive Officers and whether such further changes may have a material adverse effect on our business, financial condition or results of operations.

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

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

In September 2017, the State of São Paulo obtained approval for State Law No. 16,525/2017, which authorizes the State of São Paulo to set up a controlling company to hold all of the shares that the State of São Paulo holds in our company. Once formed, this controlling company will control our company, pursuant to the provisions of Art. 116 of Law No. 6,404 of December 15, 1976, as amended, or the Brazilian Corporate Law. State Law No. 16,525/2017 allows other minority shareholders, including private companies and state companies, to hold shares of the controlling company, provided that the State of São Paulo holds the majority of the common shares of the controlling company. If and once formed, this controlling company may affect future shareholding in and the control of our company. Due to elections for state government in the second half of 2018, this operation was suspended, and we are currently awaiting guidance from the State Privatization Program’s Board (*Conselho Diretor do Programa Estadual de Desestatização - CDPED*), which has authority over our corporate reorganization plan, including the formation of the controlling company, or any other type of corporate reorganization, including a change of control. On April 24, 2019, the CDPED established a working group aimed at discussing alternative corporate structures for us. We cannot assure that any potential corporate reorganization, including a change of control, will not have a material adverse effect on our business, financial condition or results of operations.

The São Paulo State Government, our major shareholder, is awaiting the approval of changes to the basic sanitation legislation to decide if it will implement our potential corporate reorganization which may involve a privatization or a capitalization plan. See “—Risks Relating to Our Business—Current regulatory uncertainty, especially with regard to implementation and interpretation of the Brazilian Basic Sanitation Law, may have an adverse effect on our business, financial condition or results of operations.”

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

Historically, the State and some State entities have delayed payment of substantial amounts owed to us related to water and sewage services. As of December 31, 2019, the State owed us R\$103.3 million for water and sewage services. Additionally, the State also owes us substantial amounts related to reimbursements of State-mandated special retirement and pension payments that we make to some of our former employees for which the State is required to reimburse us.

With respect to payment of pensions on behalf of the State, we had a contested credit amount of R\$1,195.3 million as of December 31, 2019. 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 of R\$747.6 million which is recorded as related-party receivables. See note 10(a) to our 2019 financial statements.

In addition, as of December 31, 2019, we had a provision for an actuarial liability in the amount of R\$3,046.3 million with respect to future supplemental pension payments for which the State does not accept responsibility.

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

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

We withdraw water for use in the São Paulo metropolitan region from the Guarapiranga and Billings reservoirs. Empresa Metropolitana de Águas e Energia S.A., or EMAE, a company that is also controlled by the State of São Paulo, has a concession to produce hydroelectric energy using water from the same reservoirs. EMAE commenced various lawsuits against us in the past seeking compensation for the water we withdraw from these reservoirs. Those lawsuits have now been settled by way of an agreement between EMAE and our company.

However, on April 11, 2016, we were also named in a separate lawsuit filed by minority shareholders of EMAE against the State of São Paulo, as controlling shareholder of EMAE. The minority shareholders are seeking an order to require the State to stop us from withdrawing water from the reservoirs without paying compensation to EMAE, and to allow EMAE to pump water from the reservoirs for its hydroelectric facility. The plaintiffs allege that the State, in its capacity as controlling shareholder of EMAE, has acted unduly to EMAE’s detriment and in favor of our company. This lawsuit was dismissed and is currently under appeal by the plaintiffs.

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

The settlement agreement between EMAE and us does not necessarily put an end to the separate lawsuits.

If one of the ongoing lawsuits by minority shareholders of EMAE requires the State to make a different decision regarding water use from what was agreed between EMAE and the State of São Paulo, our ability to withdraw water from the Guarapiranga and Billings reservoirs may be compromised. If we were no longer able to withdraw water from these reservoirs, we would have to transport water from locations further away, which would increase our water transportation costs and may affect our ability to provide adequate service in the region, which may have an adverse effect on our financial condition and results of operations. In addition, we may be ordered to pay any indemnity to EMAE if the agreement is judicially invalidated, which could have material adverse effects on our financial condition and operating results. See “Item 7. Major Shareholders and Related Party Transactions.”

## Risks Relating to Our Business

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

Our financial and operating performance may be adversely affected by pandemics such as COVID-19, as well as other catastrophes and health epidemics.

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

On March 22, 2020, the São Paulo State Government decreed a two-week quarantine throughout the State, restricting business activities in order to avoid the accelerated spread of COVID-19. On April 6, 2020, this quarantine was extended until April 22, 2020 and on April 17, 2020, this quarantine was extended until May 10, 2020. We cannot assure that this quarantine will not be extended again. As a result, our revenues in the commercial and public sectors may suffer losses due to reduced demand from those sectors. The impacts on the industrial sector are not yet clear, since certain companies will increase production as a response to the pandemic, leading to an increase in water consumption, while other companies will reduce their water consumption as a result of a reduction or stoppage in production. Our revenues from the residential sector will also be affected as consumers in the “Residential Social” and “Residential Favela” categories will be exempt from the payment of water and sewage bills for all municipalities we serve. This exemption is valid for 90 days as of April 1, 2020. However, some of the losses in revenue from the “Residential Social” and “Residential Favela” categories will be off-set by an increase in other residential consumption categories as a result of the quarantine measures. For the year ended December 31, 2019, the residential sector represented 82.8% of the volume of water billed to our customers, while the commercial sector, the industrial sector, the public sector and the wholesale sector represented 9%, 1.9%, 2.2% and 4.1%, respectively.

On April 9, 2020, ARSESP published a tariff readjustment of 2.4924%. Due to the approval of a state of public calamity mentioned above, ARSESP postponed this readjustment by 90 days. We cannot assure that ARSESP will adequately indemnify us for the tariff reduction, delay in their readjustment or reduction in the volume billed. See “Item 4.B. Business Overview–Tariffs.”

To counter this pandemic, we have implemented measures to limit our employees’ exposure to possible infection, such as a home office policy for administrative staff and employees aged 60 years or above, domestic and international travel restrictions, moving the vaccination calendar ahead of schedule, among others. These measures, though implemented to ensure the continuity of our services, may result in a disruption or delay in their provision.

Further, in order to finance our investments in infrastructure, we rely on third party capital as a complement to our own resources. However, the impact of COVID-19 on our ability to raise additional capital is still uncertain. The deterioration of Brazilian and global economic conditions could, among other things, make it more difficult or costly for us to obtain financing for our operations or investments or to refinance our debt in the future and decrease the value of certain of our investments. Any other political or governmental developments or health concerns in Brazil as a result of this outbreak could result in social, economic and labor instability.

Global supply chains and the timely availability of products have been and will continue to be materially disrupted by quarantines, factory slowdowns or shutdowns, border closings and travel restrictions resulting from the COVID-19 pandemic. We provide a critical service to our customers which means that we must keep our employees who operate our businesses safe and minimize unnecessary risk of exposure to the virus. This is a rapidly evolving situation that could lead to extended disruption of economic activity in our markets. The ultimate impact also depends on factors beyond our knowledge or control, including the duration and severity of this outbreak as well as third-party actions taken to contain its spread and mitigate its public health effects. Accordingly, we currently cannot estimate the potential impact on our financial position, results of operations and cash flows. However, all these uncertainties could have a material adverse effect on our results of operations and financial condition.

**Current regulatory uncertainty, especially with regard to implementation and interpretation of the Brazilian Basic Sanitation Law, may have an adverse effect on our business, financial condition or results of operations.**

Our operations in the state of São Paulo occur both in locations where the planning, monitoring and tariff regulation of basic sanitation services are responsibilities of the municipalities and in locations where such responsibilities are shared between the State and municipalities. The Basic Sanitation Law No. 11,445/2007 went into effect in early 2007, and although Federal Decree No. 7,217/2010 (as modified, among others, by Federal Decree No. 10,203/2020) implemented a series of new principles under the Basic Sanitation Law in 2010, the full implementation of a number of its provisions remains subject to regulations that the federal government has not yet published.

In 2016, Law No. 13,312/2016 amended Law No. 11,445/2007 and now includes the obligation to adopt environmental criteria that include, among other measures, individual metering of water consumption per habitation unit in condominiums. However, since this change is still being implemented and shall only come into effect in 2021, we are not currently able to predict its impact on our business, financial condition or results of operations.

The Basic Sanitation Law still requires that the federal government, states and municipalities establish independent regulators who monitor basic sanitation services and regulate tariffs. Municipalities may create their own regulatory agencies or partner with regional regulatory agencies, which requires us to comply with such agencies. However, we cannot predict whether this will occur and, if so, what impacts these regulations by other agencies will have on our business, financial condition or results of operations. In compliance with this law, the state of São Paulo established ARSESP in 2007. Currently, our regional and local operations, including tariff regulation, are monitored and regulated by ARSESP, and the remainder of our operations is in the process of negotiating new contractual bases. Regulatory agencies determine tariff increases for our water and sewage services, on which our results of operations and financial condition are highly dependent. As a result, we cannot anticipate all the effects that the Basic Sanitation Law No. 11,445/2007, the Federal Decree No. 7,217/2010 (as amended, among others, by Federal Decree No. 10,203/2020) and regulations issued by ARSESP will have on our business, financial condition or results of operations, if any. For further information, see “Item 4.B. Business Overview–Government Regulations Applicable to Our Contracts–The Basic Sanitation Law” and “Item 4.B. Business Overview–Government Regulations Applicable to Our Contracts–Rules Enacted by ARSESP.”

The State of São Paulo enacted the State Supplementary Law creating certain metropolitan regions and urban clusters (for further information on the specific regions created and ruled enacted, see “Item 4.B. Business Overview–Government Regulations Applicable to Our Contracts–Agreements with Municipalities and Metropolitan Regions”). These areas incorporate independent municipalities that modify the exercise of their constitutional competencies, including those related to basic sanitation services, and increase the number of judicial disputes concerning the regulation and oversight of services in areas currently served by us and regulated by ARSESP. We cannot anticipate the result of these judicial disputes and the adverse material effects that may result from them, especially if the rules of regulation and monitoring of services issued by municipal agencies come to coexist with those already published by ARSESP and implemented into our operational and corporate processes since 2011.

The debate on changes to current sanitation regulatory framework, under Sanitation Law No. 11,445/2007, began in 2018 with Provisional Measure No. 844/2018, which expired in November of that year. That same year, Provisional Measure No. 868/2018 was enacted with similar provisions to Provisional Measure No. 844/2018, and expired in June 2019.

In December 2019 the Chamber of Deputies approved Bill No. 4,162/2019, after amendments that brought it in line with Bill No. 3,261/2019. Bill No. 4,162/2019 was then sent to the Senate for approval, after which it will return to the Chamber of Deputies for further amendments or final approval. Currently, it is not possible to predict what the final outcome of the legislation and the impact on our operations will be. For more information on ARSESP regulations, see “Item 4.B. Business Overview–Government Regulations Applicable to Our Contracts–Rules Enacted by ARSESP–Consumer Relations in the State of São Paulo.”

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

The provision of water and sewage services in the city of São Paulo accounted for 44.5% of our gross operating revenues from sanitation services (excluding revenues relating to the construction of concession infrastructure) in the year ended December 31, 2019.

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

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

On May 9, 2018, ARSESP announced the final result of the Second Ordinary Tariff Revision. Following this revision cycle, ARSESP is passing-through to the tariffs up to 4% of the municipal revenue that is transferred by us to a legally established municipal infrastructure fund. In the current tariff cycle, our only contract that provides for this and complies with ARSESP’s requirements is with the municipality of São Paulo and, accordingly, today 4% of the funds transferred to the São Paulo Municipal Fund for Environmental Sanitation and Infrastructure are being passed through to our tariffs.

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

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

From 2010 to December 31, 2019, we have transferred approximately R\$3.6 billion to the São Paulo Municipal Fund for Environmental Sanitation and Infrastructure. For additional information on ARSESP regulations, see “Item 4.B. Business Overview–Tariffs” and “Item 4.B. Business Overview–Government Regulations Applicable to Our Contracts–Rules Enacted by ARSESP.”

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

***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 of early termination of our concessions if we fail to comply with our contractual or legal obligations or if the municipality determines to do so in an expropriation proceeding (*retomada de serviços*). The resumption of services must be justified by public interest. In this case, the municipalities evaluate that it is no longer in public interest to continue to provide water and sewage services under the terms and conditions of the current concession.

The Basic Sanitation Law provides that on early termination of a concession, the entity that provides sanitation services should carry out a valuation of the assets that relate to the services provided, in order to calculate the unamortized portion of its investments for purposes of assessing any related indemnification amounts that would be due to the relevant company. The resulting indemnification payment may be less than the remaining value of the investments the sanitation service provider made. Nonetheless, the indemnification payments may not be paid voluntarily by the municipality, potentially leading to judicial disputes. In the case of a judicial dispute, there is the risk that the judicial decision will consider the indemnification as undue or set it at a lower value than that of our investments.



With regard to our operations that lack contracts or have indefinite or overdue timeframes, the Basic Sanitation Law No. 11,445/2007 reduced the maximum time period for payment of indemnifications in such cases to four years. This provision applies to concession agreements entered into prior to the enactment of the Basic Sanitation Law only to the extent that the concession agreement does not contain a contractual indemnification provision, or we have not otherwise entered into an agreement with the municipality with regard to such early termination. These provisions have not yet been tested by the courts and we are therefore unable to predict the effect of the Basic Sanitation Law on our rights to indemnification for the early termination of any particular concession.

We have been, and are currently, party to concession-related proceedings related to indemnification issues regarding the resumption of water supply and sewage collection services by certain municipalities. For more information, see Note 19 to our 2019 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, this may adversely affect our business, financial condition or results of operations.

***It is not possible to predict the impact of the decision by the Brazilian Supreme Court regarding the shared management of basic sanitation services in metropolitan areas or the effect that this decision may have on our business, financial condition or results of operations.***

On March 6, 2013, the Brazilian Supreme Court decided a matter related to the shared management of basic sanitation services in the state of Rio de Janeiro. In its decision, the court ruled that the state of Rio de Janeiro must establish a new entity, owned by both the state of Rio de Janeiro and the relevant municipalities, to oversee the planning, regulation and auditing of basic sanitation services in its metropolitan region with the non-partisan participation of all the municipalities located in the metropolitan region, creating a requirement that the state and the municipalities must participate jointly in the shared management of public services.

In January 2015, the Federal Government issued the Metropolitan Bylaws (Law No. 13,089/2015), amended by Provisional Measure No. 818 of January 11, 2018, which was subsequently converted into Federal Law No. 13,683/2018, establishing: (i) the general guidelines for the planning, management and performance of public interest initiatives in metropolitan regions and in urban clusters instituted by the states; (ii) the general planning standards for integrated urban development and other interfederal governance instruments; and (iii) the criteria to receive federal loans related to urban development. In addition, the Metropolitan Bylaws foresees mechanisms for integrated management and interfederal governance as well as the sharing of decisions by regional entities.

Despite the Brazilian Supreme Court's March 6, 2013 decision and the Metropolitan Bylaws, some municipalities in metropolitan regions and urban clusters, including in metropolitan regions where we operate, have been conducting bidding processes for the concession of sanitation services without including shared management. We cannot predict the effect of this non-compliance of the shared management requirement on our business, financial condition or results of operations.

For more information on services in metropolitan regions, see "Item 4.B. Business Overview—Government Regulations Applicable to Our Contracts—Agreements with Municipalities and Metropolitan Regions."

***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\$20.2 billion in the period from 2020 through 2024. In 2019, we recorded R\$5.1 billion in capital expenditures, of which R\$ 2.1 billion are non-cash investments.

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

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

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

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

We experience decreases in our water supply from time to time due to droughts. For example, we experienced a severe drought in the metropolitan region of São Paulo in 2014 and 2015, which was more intense in the northwest region of the State of São Paulo, resulting in the lowest level of rainfall and water inflow ever recorded in the Cantareira System, the largest production system in the metropolitan region of São Paulo, over the previous 80 years of record. This drought severely affected the level of water sources that supply the metropolitan region of São Paulo, forcing us to adopt a series of measures from 2014 to April 2016 to mitigate its impact and maintain the water supply for the then 20.9 million inhabitants served in the metropolitan region of São Paulo. See “Item 4.B. Business Overview–The 2014-2015 Water Crisis.”

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

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

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

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

Since we are dependent upon energy supplies to conduct our business, extreme weather events may also reduce water levels in the reservoirs that power hydroelectric power plants in Brazil, which may cause energy shortages, may prevent us from providing water and sewage services and may also cause material damage to our water and sewage systems when we resume operations. Increased electricity prices may also adversely affect our costs and operations. For further information, see “Item 4.B. Business Overview–Energy Consumption.”

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

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

We cannot predict all of the effects of extreme weather events, therefore making it difficult to predict any necessary investments, as current technology and scientific understandings of climate change make it difficult to predict potential expenses and liabilities. If any of these events occur, we may be required to make substantial investments or incur substantial costs in their remediation, which may have a material adverse impact on our business, financial condition or results of operations. We also cannot guarantee that we will be able to pass on any of these additional costs and expenditures to our customers.

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

Current federal, state and municipal laws and regulations on climate change establish global goals, which we will have to meet, concerning greenhouse gas emissions and this may require us to increase our investments in order to comply with these laws. Currently, these goals have not yet been established for the sanitation sector. However, once they are established and if we increase our capital expenditures for this purpose, we may be required to reduce expenditures on other strategic investments. We have not provisioned any funds for climate change events as current technology and scientific understandings of climate change make it difficult to predict potential expenses and liabilities. We may be required to adopt new norms to improve our energy use efficiency and minimize the release of greenhouse gases when we renew the environmental licenses for the systems already in operation or when we obtain environmental licenses for new enterprises. We may need to make substantial new expenditures, either to comply with new environmental regulations linked to climate change or to prevent or correct the physical effects of extreme weather events, any of which could have a material adverse effect on our results of operations. For more information, see “Item 4.B. Business Overview–Environmental Matters–Climate Change Regulations: Reduction of Greenhouse Gases (GHG) Emissions” and “Item 4.B. Business Overview–Energy Consumption.”

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

We are subject to extensive Brazilian federal, state and municipal laws and regulations relating to the protection of human health and the environment. These laws and regulations set, among others, environmental licensing requirements and potable water standards and limit or prohibit the discharge or spillage of untreated effluent produced in our operations, particularly raw sewage. We occasionally suffer accidents such as leakages or breaks in pipes that could lead to liability for damages. We could be subject to various types of criminal, administrative and civil proceedings for non-compliance with environmental laws and regulations, including licensing requirements, that could expose us to administrative penalties and criminal sanctions, such as fines, closure orders and significant indemnification obligations. These expenses may lead us to reduce expenditure on strategic investments, which may adversely affect our business, financial condition or results of operations.

We are party to various environmental proceedings that could have a material adverse impact on us, including civil processes and investigations relating, among others, to the release of untreated sewage into waterways or the disposal of sludge generated by treatment plants. We are also involved in proceedings challenging the water withdrawing in the face of the 2014-2015 water crisis. Any unfavorable judgment in relation to these proceedings, or any material environmental liabilities, may have a material adverse effect on our business, financial condition or results of operations. For further information on these proceedings, see “Item 8.A. Financial Statements and Other Financial Information–Legal Proceedings.” For further information on investments in environmental programs, see “Item 4.A. History and Development of the Company–Main Projects of our Capital Expenditure Program,” “Item 4.B. Business Overview–Description of our Activities–Sewage Operations–Sewage Treatment and Disposal,” “Item 4.B Business Overview–Environmental Matters” and “Item 4.B. Business Overview– Environmental Matters–Environmental Regulation.” For further information on the Water Crisis, see “Item 4.B. Business Overview–The 2014-2015 Water Crisis.”

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

We are currently a party to numerous legal proceedings relating to civil, corporate, environmental, labor and tax claims filed against us. These claims involve substantial amounts of money and other remedies. We have established provisions for all amounts in dispute that represent a present obligation as a result of a past event and is probable there will be outflow to settle the referred obligation in the view of our legal advisors and due to disputes that are covered by laws, administrative decrees, decrees or court rulings that have proven to be unfavorable. As of December 31, 2019, the estimated total claims asserted amounted to R\$45,070.8 million (net of R\$219.7 million in escrow deposits), including contingent liabilities. We have recognized provisions totaling R\$1,035.8 million (net of escrow deposits) as of December 31, 2019. These provisions do not cover all legal proceedings involving monetary claims filed against us and it may be insufficient to cover the ultimate resolution of these claims. Any unfavorable judgment in relation to these proceedings may have a material adverse effect on our financial condition. For more information, see “Item 8.A. Financial Statements and Other Financial Information–Legal Proceedings” and Note 19 to our 2019 Financial Statements included in this annual report.

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

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

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

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

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

Our information technology and infrastructure may be vulnerable to cyberattacks or security breaches, and third parties may be able to access our customers', suppliers' and employees' personal or proprietary information that are stored on or accessible through those systems. Our security measures may also be breached due to human error, malfeasance, system errors or vulnerabilities, or other irregularities. Any actual or perceived breach of our security could interrupt our operations, result in our systems or services being unavailable, result in improper disclosure of data, materially harm our reputation and brand, result in significant legal and financial exposure, lead to loss of customer confidence in our products and services, and adversely our business, financial condition or results of operations. In addition, any breaches of network or data security at our suppliers (including data center and cloud computing providers) could have similar negative effects. Actual or perceived vulnerabilities or data breaches may lead to claims against us. We cannot guarantee that the protections we have in place to protect our operating technology and information technology systems are sufficient to protect against cyberattacks and security and privacy breaches.

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

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

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

LGPD is scheduled to become fully effective in August 2020 and will provide a comprehensive regulation for the use of personal data in Brazil. However, Bill No. 1,179/2020 sets out, among other legislative measures to address the ongoing coronavirus pandemic, that LGPD will become effective on January 1, 2021 and that its administrative sanctions will only be applicable as of August 2021. As of the date of this annual report, Bill No. 1,179/2020 was passed in the Senate and currently awaits approval by the Chamber of Deputies.

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

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

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

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

Our water and sewage pipes are susceptible to degradation caused by factors such as age, intense traffic, population density and commercial and industrial development, which may provoke accidents in the networks and affect the regular provision of our services, impacting our customers and the environment. In particular, the increasing degradation of watershed areas (*Mananciais*) may affect the quantity and quality of water available to meet demand from our customers. See “Item 4.B. Business Overview–Description of Our Activities–Water Operations–Water Distribution” and “Item 4.B. Business Overview–Description of Our Activities–Sewage Operations–Sewage System.”

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

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

***We may face difficulties in continuing to provide water and sewage services in return for payment in certain municipalities, and we cannot assure you that they will continue to purchase services from us on the same terms or at all.***

As of December 31, 2019, we held formal agreements with 325 municipalities (including the city of São Paulo) of the 372 municipalities we serve. We entered into 18 of these agreements during 2019. These 325 municipalities accounted for 85.0% of our total revenues (excluding revenues relating to the construction of concession infrastructure) for the year ended December 31, 2019 and 90.1% of our intangible assets and contract assets as of the same date. As of December 31, 2019, 21 of our concessions had expired and are currently being renegotiated. These 21 municipalities accounted for 2.8% of our total revenues (excluding revenues relating to the construction of concession infrastructure) for the year ended December 31, 2019 and 4.1% of our intangible assets and contract assets as of the same date. From January 1, 2020 through 2030, 27 concession agreements, accounting for 3.7% of our revenues (excluding revenues relating to the construction of concession infrastructure) the year ended December 31, 2019 and 3.0% of our intangible assets and contract assets as of the same date, will expire.

We may not be able to continue providing service on current terms, or at all, in the municipalities for which we do not have formal agreements, including the 21 for which we are renegotiating expired agreements. In particular, the lack of formal concessions or contractual rights in these municipalities means that we may not be able to enforce our right to continue to provide services and we may face difficulties in being paid on a timely basis, or at all, for the unamortized assets. If we are successful in renegotiating the expired agreements, or executing formal agreements with the municipalities for which we have never had agreements, those agreements may not contain terms that are as favorable as those under which we currently operate. The municipalities for which we do not have formal agreements may choose to start providing water and sewage services directly themselves, or may run public tenders to select another provider. They may set eligibility requirements for which we do not qualify and, if we do qualify and participate in these tenders, we may not win.

In December 2019 the Chamber of Deputies approved Bill No. 4,162/2019, after amendments that brought it in line with Bill No. 3,261/2019. Bill No. 4,162/2019 was then sent to the Senate for approval, after which it will return to the Chamber of Deputies for further amendments or final approval. Currently, it is not possible to predict what the final outcome of the legislation and the impact on our operations will be. Any of these events could have a material adverse effect on our business, financial condition or results of operations. For more information on ARSESP regulations, see “Item 4.B. Business Overview—Government Regulations Applicable to Our Contracts—Rules Enacted by ARSESP—Consumer Relations in the State of São Paulo.”

***We may face difficulties in collecting overdue amounts owed to us by municipalities to which we provide water on a wholesale basis and municipal government entities.***

As of December 31, 2019, our total trade receivables was R\$3,395.0 million. Of this amount, the municipalities of Mogi das Cruzes and São Caetano do Sul, to which we provide water on a wholesale basis, owed us R\$13.1 million, and certain municipal government entities owed us R\$749.7 million. Of the total amount owed by municipalities, R\$75.3 million was overdue by between 30 and 360 days and R\$601.9 million was overdue by over 360 days.

The Brazilian courts could oblige us to continue to supply water to these municipalities, even when we have not received payments due to us. We have no way of ensuring that negotiations with these municipalities or legal actions taken against the municipalities will result in payments being made.

In August 2019, we signed a new Protocol of Intentions with the municipality of Mauá aiming to resolve commercial issues and the municipality’s outstanding debt with us. On January 16, 2020 a municipal law was sanctioned, allowing the government of Mauá to sign agreements, amendments and any other necessary adjustments with the State of São Paulo, ARSESP and us. As of the date of this annual report there has been no progress in negotiations and we cannot guarantee if or when any agreement will be signed.

For more information on wholesale operations, see “Item 4.B. Business Overview—Description of Our Activities—Wholesale Operations.” In addition, certain entities associated with municipal governments for which we provide services also do not make regular payments. We cannot guarantee if or when these entities will make payments on a regular basis or pay the amounts they owe us. If these municipalities and related entities do not pay the amounts they owe us, our business, financial condition or results of operations may be adversely affected.

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

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

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

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

Investing in securities from emerging markets such as Brazil involves greater risk than investing in securities of issuers in major securities markets, and these investments are often considered to be more speculative in nature. The Brazilian securities market is substantially smaller, less liquid, more concentrated and can be more volatile than major securities markets. Accordingly, although you are entitled to withdraw the common shares underlying the ADSs from the depositary at any time, your ability to sell the common shares underlying the ADSs at a price and time at which you wish to do so may be substantially limited. There is also significantly greater concentration in the Brazilian securities market than in major securities markets. The ten largest companies in terms of market capitalization represented approximately 50.1% of the aggregate market capitalization of the B3 as of December 31, 2019.

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

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

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

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

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

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

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

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

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