

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2019

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report \_\_\_\_\_

Commission file number 001-31317

**Companhia de Saneamento Básico do Estado de São Paulo–SABESP**

(Exact name of Registrant as specified in its charter)

**Basic Sanitation Company of the State of São Paulo-SABESP**

(Translation of the Registrant's name into English)

**Federative Republic of Brazil**

(Jurisdiction of incorporation or organization)

**Rua Costa Carvalho, 300  
05429-900 São Paulo, SP, Brazil**

(Address of principal executive offices)

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**Rua Costa Carvalho, 300 05429-900 São Paulo, SP, Brazil**

Securities registered or to be registered pursuant to Section 12(b) of the Act:

<b>Title of each class</b>	<b>Trading Symbols(s)</b>	<b>Name of each exchange on which registered</b>
Common Shares, without par value	Not traded	New York Stock Exchange*
American Depositary Shares, evidenced by American Depositary Receipts, each representing one Common Share	SBS	New York Stock Exchange

Shares are not listed for trading, but only in connection with the registration of American Depositary Shares pursuant to the requirements of the New York Stock Exchange.

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

683,509,869 Shares of Common Stock

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer

Accelerated Filer

Non-accelerated Filer

Emerging Growth Company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards<sup>†</sup> provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP  International Financial Reporting Standards as issued by the International Accounting Standards Board  Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow

Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

<sup>†</sup> The term "new or revised financial accounting standard" refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

Yes  No

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## PRESENTATION OF FINANCIAL AND OTHER INFORMATION

### General

We maintain our books and records in *reais*. We prepare our financial statements in accordance with International Financial Reporting Standards, or “IFRS,” as issued by the International Accounting Standards Board, or the “IASB.” Our audited financial statements as of December 31, 2019 and 2018 and for each of the years in the three-year period ended December 31, 2019 are included in this annual report on Form 20-F.

Certain figures included in this annual report have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

### Other Information

In this annual report, unless the context otherwise requires, references to “we,” “us,” “our,” “Company,” or “SABESP” refer to Companhia de Saneamento Básico do Estado de São Paulo – SABESP.

In addition, references to:

- “ANA” are to Water National Agency (*Agência Nacional de Águas*);
- “ARSESP” are to the São Paulo State Sanitation and Energy Regulatory Agency (*Agência Reguladora de Saneamento e Energia do Estado de São Paulo*);
- “ADR” or “ADRs” are to American Depositary Receipt or American Depositary Receipts, respectively;
- “ADS” or “ADSs” are to American Depositary Share or American Depositary Shares, respectively;
- “BNDES” are to Brazilian National Bank for Economic and Social Development (*Banco Nacional de Desenvolvimento Econômico e Social*).
- “Brazil” are to the Federative Republic of Brazil;
- “Central Bank” are to the Central Bank of Brazil;
- “Coverage” indicators are to (a) the number of homes that are actually connected to the water network or sewage collection network, plus the number of homes for which the water and sewage networks are available for connection but which are not connected to those networks (referred to as “feasible” or “connectable” homes), as a portion of (b) the total number of homes within the urbanized service area covered by our contract with the municipality (i.e., the “serviceable area”);
- “COVID-19” or “Coronavirus” are to the novel coronavirus pandemic;
- “CVM” are to the *Comissão de Valores Mobiliários*, the Brazilian securities and exchange commission;
- “FAPESP” are to the *Fundação de Amparo à Pesquisa do Estado de São Paulo*, the São Paulo State Research Foundation;
- “federal government” and “Brazilian government” are to the federal government of the Federative Republic of Brazil and “state government” are to the state government of the State of São Paulo;
- “IDB” are to the Interamerican Development Bank;
- “¥” or “Japanese Yen” are to the official currency of Japan;
- “*real*,” “*reais*” or “R\$” are to the Brazilian *real*, the official currency of Brazil;
- “Regional Systems” are to the area where the regional systems’ executive office operates, comprising 332 municipalities in the interior and coastline regions of the state of São Paulo;
- “São Paulo metropolitan region,” with respect to our operations, are to the area where the metropolitan executive office operates, comprising 40 municipalities, including the city of São Paulo;

- “Service” indicators are to (a) the number of homes that are actually connected to the water network or sewage collection network, as a portion of (b) the total number of homes within a given serviceable area;
- “Sewage Treatment Coverage” indicators are to the amount of consumer units connected to the sewage treatment system;
- “State” are to the State of São Paulo, which is also our controlling shareholder;
- “U.S. dollars” or “US\$” are to the United States dollar, the official currency of the United States;
- “water crisis” are to the drought we experienced from late 2013 and throughout most of 2015. This drought, the most serious that our service region has experienced in the previous 80 years, primarily affected the Cantareira System, our largest water production system; and
- “WHO” are to the World Health Organization.

Information in this annual report related to liters, water and sewage volumes, number of employees, kilometers, water and sewage connections, population served, operating productivity, water production, water and sewage lines (in kilometers), water loss index and investment in programs has not been audited.

### ***Market Information***

We make statements in this annual report about our market share and other information relating to Brazil and the industry in which we operate. We have made these statements on the basis of information from third-party sources and publicly available information that we believe is reliable, such as information and reports from the Brazilian Institute of Geography and Statistics (*Instituto Brasileiro de Geografia e Estatística*), or IBGE, and the State Data Analysis System Foundation (*Fundação Sistema Estadual de Análise de Dados*), or SEADE, among others. We have no reason to believe that any of this information is inaccurate in any material respect.

References to urban and total population in this annual report are estimated based on research prepared by SEADE entitled “Projections of Population and Residences for the Municipalities of the State of São Paulo: 2010-2050” (*Projeção da População e dos Domicílios para os Municípios do Estado de São Paulo: 2010-2050*).

### ***Our Contracts and the Municipalities We Serve***

Throughout this document, we refer to the 372 municipalities we serve and the three municipalities in our wholesale segment (Mauá, Mogi das Cruzes and São Caetano do Sul), since our revenue for the fiscal year 2019 is derived from these municipalities. Most of our contracts with the municipalities we serve are program contracts which have a term of 30 years. Additionally, in October 2019 we signed a contract with the municipality of Tapiratiba and operations commenced in April 2020.

In December 2018, we entered into an agreement with the municipality of Guarulhos to direct supply water and sewage services to the municipality for 40 years as part of our retail operations. However, the municipality of Guarulhos held a PPP contract which entitled part of the sewage services to another company. In September 2019, the company which provided partial sewage services terminated the contract, after which we began providing the entirety of sewage services to Guarulhos as part of our retail operations, under an emergency agreement. The Contract for the Provision of Public Services of Water and Sewage we signed on December 12, 2018 was amended on December 4, 2019, and entitled us to the full provision of public sewage services in the municipality of Guarulhos.

Additionally, in August 2019 we also started retail operations (to supply water and sewage services) in the municipality of Santo André, which was served before on a wholesale basis.

## CAUTIONARY STATEMENTS ABOUT FORWARD-LOOKING STATEMENTS

This annual report includes forward-looking statements, mainly in Items 3 through 5. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends affecting our business. These forward-looking statements are subject to risks, uncertainties and assumptions, including, among other factors:

- general economic, political, demographical, health and other conditions in Brazil and in other countries;
- changes in applicable laws and regulations, as well as the enactment of new laws and regulations, including those relating to environmental, tax and employment matters in Brazil;
- availability of the water supply;
- the impact on our business of lower water consumption practices adopted by our customers during the water crisis, which we do not know if they will return to their prior standards despite the discontinuation of the measures adopted to serve the São Paulo metropolitan region during the water crisis, or if the impact will be compensated by tariffs established by ARSESP;
- any measures that we may be required to take to ensure the provision of water to our customers;
- our exposure to probable increases in the frequency of extreme weather conditions, including droughts and intensive rain and other climatic events;
- fluctuations in inflation, interest rates and exchange rates in Brazil;
- the interests of our controlling shareholder;
- the potential impacts on our business caused by the approval and conversion of Bill No. 4,162/2019 into law, which is currently under discussion;
- our potential corporate reorganization, as approved by State Law No. 16,525 on September 15, 2017, or any other type of reorganization that might be approved by the government that may include change in control;
- our ability to collect amounts owed to us by our controlling shareholder, states, the federal government and municipalities;
- our ability to continue to use certain reservoirs under current terms and conditions;
- our capital expenditure program and other liquidity and capital resources requirements;
- power shortages, rationing of energy supply or significant changes in energy tariffs;
- the effects of the agreement for provision of water and sewage services in the city of São Paulo, which we executed with the State and the city of São Paulo considering that ARSESP has limited the pass-through to tariff of values transferred to municipal infrastructure funds to 4%;
- the lack of formal agreements between our company and certain municipalities to which we provide water and sewage services, including cities comprising metropolitan regions, urban conurbations, and the fact that the State and municipal governments share competency regarding these services;
- the municipalities' ability to terminate our existing concession agreements prior to their expiration date and our ability to renew such agreements;
- our ability to provide water and sewage services in additional municipalities and to maintain the right to provide the services for which we currently have contracts;
- the size and growth of our customer base and its consumption habits;
- our ability to comply with the requirements regarding water and sewage service levels included in our agreements with municipalities;
- our level of debt and limitations on our ability to incur additional debt;

- our ability to access financing with favorable terms in the future;
- the costs we incur in complying with environmental laws and any penalties for failure to comply with these laws;
- the outcome of our pending or future legal proceedings;
- the delay or postponement in investment in our sewage system;
- our management’s expectations and estimates relating to our future financial performance;
- the regulations issued by ARSESP regarding several aspects of our business, including resetting and adjusting our tariffs;
- the impact of widespread health developments, such as COVID-19, and the governmental, regulatory, consumer and other responses thereto and its effects on our operating revenues and financial condition as a result of, *inter alia*, a decrease in water consumption and an increase in defaults in certain sectors and an increase in non-payment of water bills;
- the possibility to be subject to a regulatory agency, other than ARSESP; and
- other risk factors as set forth under “Item 3.D. Risk Factors.”

The words “believe,” “may,” “estimate,” “continue,” “anticipate,” “plan,” “intend,” “expect” and similar words are intended to identify forward-looking statements. In light of these risks and uncertainties, the forward-looking events and circumstances discussed in this annual report might not occur. Our actual results could differ substantially from those anticipated in our forward-looking statements. Forward-looking statements speak only as of the date they were made, and we do not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by law. Any such forward-looking statements are not an indication of future performance and involve risks.





## Selected Statement of Financial Position Data

	2019	2018	2017	2016	2015
	R\$	R\$	R\$	R\$	R\$
Property, plant and equipment	314.4	267.6	255.1	302.4	325.1
Contract asset (*)	7,617.7	7,407.9	–	–	–
Intangible assets	32,325.4	29,012.5	33,466.1	31,246.8	28,513.6
Total assets	46,457.8	43,565.1	39,546.4	36,745.0	33,706.6
Loans and financing - current	2,859.8	2,103.6	1,746.8	1,246.6	1,526.3
Long-term loans and financing	10,384.9	11,049.2	10,354.2	10,717.6	11,595.3
Interest on capital	800.4	673.8	598.6	700.0	127.4
Total liabilities	24,822.0	24,013.4	22,033.4	21,325.8	19,990.0
Equity	21,635.8	19,551.7	17,513.0	15,419.2	13,716.6
Capital stock	15,000.0	15,000.0	10,000.0	10,000.0	10,000.0

### Selected Statements of Cash Flows Data:

Net cash generated from operating activities	4,197.2	3,842.9	3,301.9	3,003.6	2,641.4
Net cash used in investing activities	(3,267.3)	(2,189.3)	(1,971.4)	(2,130.7)	(2,459.5)
Net cash provided by (used in) financing activities	(1,705.9)	(907.5)	(933.6)	(625.9)	(265.7)
Purchases of intangible assets and property, plant and equipment as presented in our statement of cash flow	(3,273.4)	(2,183.2)	(1,976.7)	(2,135.8)	(2,452.1)

(\*) As of December 31, 2018, with the adoption of IFRS 15 - Revenue from contract with customer, since 1 January 2018, assets related to concessions under construction, registered under the scope of IFRIC 12 - Concession Contracts, have been classified as Contract Assets during the construction period and transferred to Intangible Assets only after completion of the works. For more information on this adoption, see Note 4.1 to our 2018 financial statements included in this annual report.

## Operating Data

Indicator	2019	2018	2017
Number of water connections (in thousands)	9,933	9,053	8,863
Number of sewage connections (in thousands)	8,326	7,495	7,302
Percentage of population with water connections ("service" indicator) (in percent) <sup>(1)</sup>	94	95	95
Percentage of population with sewer connections ("service" indicator) (in percent) <sup>(1)</sup>	84	83	83
Percentage of population covered by water network ("coverage" indicator) (in percent) <sup>(2)</sup>	98	98	98
Percentage of population covered by sewage network ("coverage" indicator) (in percent) <sup>(2)</sup>	91	90	90
Percentage of consumer units connected to the sewage treatment system ("sewage treatment coverage" indicator) (in percent)	78	76	75
Volume of water billed during period (in millions of cubic meters)	2,112.7	2,107.9	2,075.9
Water Billed Loss Index during period (average) (in percent) <sup>(3)</sup>	18.7	19.5	20.1
Water Metered Loss Index during period (average) (in percent) <sup>(4)</sup>	29.0	30.1	30.7
Water loss per connection per day (average) <sup>(5)</sup>	285	293	302
Number of employees	13,945	14,449	13,672

(1) Is equal to (a) the number of homes that are actually connected to the water network or sewage collection network, as a portion of (b) the total number of homes within the serviceable area.

(2) It is equal to (a) the number of homes that are actually connected to the water network or sewage collection network, plus the number of homes for which the water and sewage networks are available for connection but which are not connected to those networks (referred to as "feasible" or "connectable" homes), as a portion of (b) the total number of homes within the urbanized service area covered by our contract with the municipality (i.e., the "serviceable area").

(3) Includes both physical and non-physical water loss. Water Billed Loss Index represents the quotient of (i) the difference between (a) the total volume of water produced plus (b) the total volume of water invoiced minus (c) the volume of water excluded from our calculation of water loss, divided by (ii) the total volume of water produced. For more information, see "Item 4.B. Business Overview—Description of Our Activities—Water Operations—Water Loss." We exclude the following from our calculation of water loss: (i) water discharged for periodic maintenance of water transmission lines and water storage tanks; (ii) water supplied for municipal uses such as firefighting; (iii) water we consume in our facilities; and (iv) estimated water loss related to the supply of water to shantytowns (*favelas*).

(4) Includes both physical and non-physical water loss. The Water Metered Loss Index represents the quotient of (i) the difference between (a) the total volume of water produced minus (b) the total volume of water measured minus (c) the volume of water that we exclude from our calculation of water loss, divided by (ii) the total volume of water produced. For more information, see "Item 4.B. Business Overview—Description of Our Activities—Water Operations—Water Loss." We exclude the following from our calculation of water loss: (i) water discharged for periodic maintenance of water transmission lines and water storage tanks; (ii) water supplied for municipal uses such as firefighting; (iii) water we consume in our facilities; and (iv) estimated water loss related to the supply of water to shantytowns (*favelas*).

(5) Measured in liters/connection per day, this amount is calculated by dividing (i) the average annual water loss by (ii) the average number of active water connections multiplied by the number of days of the year. This calculation method is based on worldwide market practice within the sector. See "Item 4.B. Business Overview—Description of Our Activities—Water Operations—Water Loss." We exclude the following from our calculation of water loss: (i) water discharged for periodic maintenance of water transmission lines and water storage tanks; (ii) water supplied for municipal uses such as firefighting; (iii) water we consume in our facilities; and (iv) estimated water loss related to the supply of water to shantytowns (*favelas*).

## 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:

- 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 intergovernmental instruments; and (iii) the criteria to receive federal loans related to urban development. In addition, the Metropolitan Bylaws foresees mechanisms for integrated management and intergovernmental 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 *reals* 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.

LPGD 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 depository 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.

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

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

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

Sales of a substantial number of shares, or the belief that this may occur, could decrease the prevailing market price of our common and preferred shares and 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 Brazilian Government, may decide to capitalize us for a variety of reasons therefore diluting existing shareholders and ADS holders.

**ITEM 4. INFORMATION ON THE COMPANY**

**A. History and Development of the Company**

**Overview**

Companhia de Saneamento Básico do Estado de São Paulo – SABESP is a mixed capital company (*sociedade de economia mista*) with limited liability. We were incorporated on September 6, 1973 under the laws of the Federative Republic of Brazil. We are registered with the Commercial Registry of the State of São Paulo (*Junta Comercial do Estado de São Paulo*) under registration number NIRE 35300016831. Our principal executive offices are located at Rua Costa Carvalho, 300, 05429-900 São Paulo, SP, Brazil. Our telephone number is +55 11 3388-8000. Our agent for service of process in the United States is CT Corporation System, with offices at 818 West Seventh Street – Team 1, Los Angeles, CA 90017. We are allowed to operate, in a subsidiary form, in other Brazilian locations and abroad. See “Item 4.B. Business Overview— Government Regulations Applicable to Our Contracts—Contracts for the Provision of Essential Basic Sanitation Services in Brazil.”

We believe we are one of the largest water and sewage service providers in the world (based on the number of customers, according to the in Depth Water Yearbook 2014-2015). We operate water and sewage systems in the state of São Paulo, which includes the city of São Paulo, Brazil's largest city. According to the IBGE, the state of São Paulo is Brazil's most populous state and the state with the highest gross domestic product, or GDP, in Brazil. For the year ended December 31, 2019, we generated net revenue of R\$17,983.7 million and net income of R\$3,367.5 million. Our total assets amounted to R\$46,457.8 million and our total shareholders' equity amounted to R\$21,635.8 million as of December 31, 2019.

As of December 31, 2019, we provided water and sewage services to a broad range of residential, commercial, industrial and governmental customers in 372 of the 645 municipalities in the state of São Paulo, including the city of São Paulo. Substantially all of our concessions or program agreements have 30-year terms. As of December 31, 2019, we lacked formal agreements for 21 of the municipalities we serve, each of which we are currently in the process of renegotiating. From January 1, 2020 through 2030, 27 further concessions will expire, and we will seek to replace them with program agreements. In addition to the 372 municipalities we served, we also provided water and sewage services to the municipality of Mogi das Cruzes, pursuant to two partial water contracts under which we service only certain neighborhoods in that municipality. See “Presentation of Financial and Other Information—Other Information—Our Contracts and the Municipalities We Serve.”

We also supplied water on a wholesale basis to three municipalities in the São Paulo metropolitan region, two of which also received our sewage treatment services. For the year ended December 31, 2019, the São Paulo metropolitan region (including the municipalities to which we provide water on a wholesale basis) accounted for 73.4% of our operating revenue (excluding revenues relating to the construction of concession infrastructure), while the Regional Systems accounted for 26.6%. The municipalities of Guarulhos and Santo André were both served on a wholesale basis until December 2018 and August 2019, respectively, after which we started retail operations in these municipalities, which means we now account for them as part of our retail segment.

As of December 31, 2019, we provided water services through 9.9 million water connections to approximately 27.1 million people, representing approximately 61% of the total population of the state of São Paulo, and had a water coverage ratio of 98% with respect to all regions. As of that date, we provided sewage services through 8.3 million sewage connections to approximately 23.8 million people and had an effective sewage service ratio of 84%. As of December 31, 2019, we operated using 81,324 kilometers of water pipes and water transmission lines and 55,983 kilometers of sewer lines.

We also provide water and/or sewage services to four other municipalities through special purpose companies. In addition, we have three partnerships with private companies: Aquapolo Ambiental S.A., Attend Ambiental S.A. and Paulista Geradora de Energia S.A. Aquapolo Ambiental S.A. commenced operations in the second half of 2012 and operates the largest water recycling facility in the southern hemisphere. Aquapolo Ambiental S.A. has the capacity to supply up to 1,000 liters per second to industries in the Capuava petrochemical cluster of the São Paulo metropolitan region, but is currently only providing approximately 650 liters per second as a result of demand. Attend Ambiental S.A. commenced operations in the second half of 2014 to operate a pre-treatment plant for non-domestic effluent in the São Paulo metropolitan region. Paulista Geradora de Energia S.A., which was formed in 2015, focuses on the implementation and commercial exploration of water potential in small hydroelectric power plants, located at Vertedouro Cascata and the Guaraú Water Treatment Plant, with a total capacity of 7 MW. Until the date of this annual report, we had not yet started construction. See “Note 11 to the Financial Statements - Investments.” In addition, we provide consulting services regarding the rational use of water, the updating of institutional models, and commercial and operational management in Panama, through a consortium.

The State of São Paulo, our controlling shareholder, is required by State Law No. 11,454/2003 to own at least 50% plus one of our common shares. As of December 31, 2019, the State owned 50.3% of our outstanding common shares. As a mixed capital company, we are an integral part of the State governmental structure. Our strategy and major policy decisions are formulated in conjunction with the State Secretariat for Infrastructure and Environment as part of the State’s overall strategic planning. The majority of the members of our board of directors and our board of executive officers are nominated by the State government.

In addition, our capital expenditure budget is subject to approval by the State legislature and is approved in conjunction with the budget of the State Secretariat for Infrastructure and Environment as a whole. Our financial statements and accounting records are subject to review by the State Accounts Tribunal (*Tribunal de Contas*), as are all accounts of the State.

Our results of operations and financial condition are generally affected by (i) our ability to raise tariffs, control costs and improve productivity; (ii) the general economic conditions in Brazil and abroad; (iii) climate conditions; and (iv) the impact of pandemics such as COVID-19. After the water crises, the volume of water billed to the São Paulo metropolitan region continued below 2013 levels as many of our customers continue to apply some of the lower water consumption practices adopted during water crisis. For further information on the water crisis, see “Item 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” and “Item 4.B Business Overview—The 2014-2015 Water Crisis.”

## **Our Strengths**

We believe that our strong business position and future prospects derive from the following strengths:

***Well-established business with significant size, scale and know-how to operate in complex urban settings.*** We believe we are one of the largest water and sewage service providers in the world. We provide water services directly to approximately 27.1 million people and supply water on a wholesale basis to an additional urban population of approximately 1.0 million people. As of December 31, 2019, we had an effective water coverage ratio of 98% in respect of all regions in which we operate. We also provide sewage services directly to approximately 23.8 million people, achieving an effective sewage service ratio of 84% in respect of all regions in which we operate as of December 31, 2019. Our significant size and scale have required us to operate in complex urban settings such as shantytowns (*favelas*) and environments without urban planning, thereby enabling us to develop well-trained personnel, skills for operating in adverse conditions that we believe our competitors lack.

***Operations in Brazil’s most populous and wealthy state.*** The state of São Paulo, which is located in the most developed and economically active region of Brazil, is the most populous state in Brazil, with an estimated total population of 44.5 million as of December 31, 2019. The city of São Paulo had an estimated total population of 11.8 million as of the same date, while the São Paulo metropolitan region had a total population of 21.1 million. Based on its GDP, the state of São Paulo is the wealthiest state and has the largest economy of any state in Brazil. The GDP of the state of São Paulo was approximately R\$2.1 trillion representing approximately 32.2% of Brazil’s total GDP, according to the most recent data collected by the IBGE in 2017. The state of São Paulo generates more revenue from water and sewage services than any other Brazilian state.

**Strong Base of Contracted Business.** Between January 1, 2007 and December 31, 2019, we executed agreements with 325 municipalities, including agreements with the cities of São Paulo and Guarulhos, respectively the first and second largest municipalities in the State of São Paulo. For the year ended December 31, 2019, income from these agreements accounted for 85% of our gross operating revenues from sanitation services (excluding revenues relating to the construction of concession infrastructure).

**Access to low-cost and diverse sources of financing.** Our strong cash flow generation from operations and our role as an essential public service provider places us in a privileged position in our industry to obtain low cost, long-term financing from Brazilian public banks, and domestic and international multilateral agencies and development banks. We do not depend on a limited number of sources of financing, but instead have access to various funding alternatives in the Brazilian and international markets to fund our working capital needs and our capital expenditure programs.

**Strong corporate governance practices.** In 2002, we joined the *Novo Mercado* segment of the B3, which is the listing segment in Brazil with the highest corporate governance requirements. Additionally, in 2016 Federal Law No. 13,303/16 came into force in Brazil and set new corporate governance standards for Brazilian government-owned and mixed capital companies like our company, as well as their subsidiaries. This law also set new rules that these companies must follow in public bidding procedures when contracting with third parties. As a result, we are committed to certain corporate governance standards that are not otherwise required by Brazilian Corporate Law, which provides heightened protection to our shareholders and enhances the quality of information we disclose to the market.

**High quality operations.** We believe that we adhere to high standards of service and employ the best available technology in the sanitation business to control the quality of the water we abstract, process and distribute. Of our 16 laboratories in total, our central laboratory and 13 of our regional laboratories are accredited by the National Institute of Metrology, Quality and Technology, Standardization and Industrial Quality, or INMETRO, and comply with the ABNT NBR ISO IEC 17025 standard, thereby assuring the quality and accuracy of our test results. Moreover, our laboratories and field teams use the latest equipment to detect substances controlled by regulations and have highly trained teams to handle contingencies and customer complaints. We believe our technology enhances the efficiency and quality of our operations.

## **Our Strategy**

Our mission is to provide water and sewage services, contributing to improvements in quality of life and the environment. Our goal is to become a global reference in the provision of basic sanitation services in a sustainable, competitive and innovative manner, focused on the needs of our clients. To this end, our strategic objectives are based upon the guiding principles of water availability, excellence in the provision of services, sustainable growth, fostering and expanding our operating base, innovation and technology, motivation of personnel and expansion of our sewage treatment coverage.

**Secure water availability in the areas where we operate.** Our goal is to secure the availability of water in the areas where we operate, as well as to promote a rational and integrated use of water resources, respecting demand and critical levels of water for each region, and allocating resources in the short, medium and long run in order to guarantee access to water. Our goal is to consistently meet the needs of our consumers with our services. Furthermore, specifically during 2015 to 2018, we implemented a series of short-term and medium-term initiatives that improved the water security for the Metropolitan region of São Paulo. For more information, see “—Capital Expenditure Program.”

**Ensure the quality and availability of our services in our existing service area through excellence in service provision and improving our operating efficiency.** Our goal is to maintain the water coverage ratio, coupled with a high standard of quality and availability of our services, and meet the expected growth in our operations. We also intend to increase our sewage coverage by adding 1.2 million sewage connections by 2024. In addition, we seek to reduce both physical and non-physical water loss. See “—Capital Expenditure Program.”

We also seek to improve our processes by implementing: (i) a new management model based on the Management Excellence Model of the National Quality Foundation (*Modelo de Excelência na Gestão da Fundação Nacional da Qualidade*) that seeks to improve the alignment of management processes and the dissemination of best practices within the company; (ii) an enterprise resourcing planning system, or “ERP system” (SAP), and a customer relationship management system, or “CRM system” (Net@suite), to replace our commercial and management information systems. The ERP system was implemented in April 2017. The first stage of Net@suite was implemented in August 2018 and we expect to complete the implementation of the Net@ suite by mid-2021.

Through these projects we intend to increase our speed and productivity in responding to regulatory changes; to strengthen and streamline our financial, commercial and administrative structure; to provide a solid and integral base of information to support the decision-making process; and to increase the efficiency of our operations while also reducing costs.

***Continue to seek sustainable growth.*** Our goal is to grow while balancing our economic and financial results with environmental and social considerations, to secure positive financial results so as to guarantee investments for the provision of services, as well as to provide adequate and just remuneration for our shareholders. We seek to act as citizens and to promote the well-being of the communities we operate in and the protection of the environment. We aim to apply our principles of financial growth and sustainability to each business unit, assigning goals and setting clear responsibilities for each unit so as to strengthen our financial results. To achieve this goal, we intend to use our best efforts to reduce operating costs and increase productivity and profitability. We plan to improve the management of our assets, as well as to continue to reduce our total operating expenses by automating some of our facilities, streamlining operational processes, implementing integrated planning and further investing in internal technological research and development.

We also plan to continue our efforts to improve our collection of overdue trade receivables from municipalities to which we provide services, from the State and from other governmental entities, including by exploring opportunities to offset these outstanding debts against certain possessory or property rights over utilities relating to water and sewage systems. We intend to continue to fund our working capital needs and estimated capital expenditure programs with diversified sources of financing, such as domestic and international development banks and multilateral agencies. We will continue to seek market opportunities for low-cost financing and restructuring of our indebtedness if and when advantageous and appropriate.

Since 2008, we have expanded into activities that complement water and sewage services in which we may leverage our know-how, size, scale and profitability. These activities include consulting and management of sanitation systems.

Currently, we provide water and/or sewage services to four other municipalities through special purpose companies and have three partnerships with private companies. See “Item 4. Information on the Company—History and Development of the Company—Overview.”

***Maintain and expand our operating base.*** We intend to maintain and expand our operating base by executing new agreements. To this end, we are actively seeking to develop closer relationships with the municipal governments that we currently serve in order to increase customer loyalty, allowing us to renew all or substantially all of our concession agreements as they expire. We also regularly explore the possibility of executing agreements for the provision of water and sewage services in municipalities in the state of São Paulo in which we currently have no operations or to which we currently supply water and provide sewage treatment solely on a wholesale basis, which on aggregate represent a total population of approximately 14.7 million. We evaluate possible expansion opportunities in terms of proximity to our existing service areas to maximize return on investment and improve our financial performance. In June 2010, we entered into a 30-year agreement with the State and city of São Paulo for the provision of water and sewage services in the city of São Paulo, which in the year ended December 31, 2019 accounted for 44.5% of our gross operating revenues from sanitation services (excluding revenues relating to the construction of concession infrastructure). Between January 1, 2007 and December 31, 2019, we entered into agreements with 325 municipalities (including our services agreement with the city of São Paulo), of which 18 were entered into in 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.

***Seek opportunities to adopt and develop innovative technology.*** We plan to stimulate the creation, adoption and diffusion of innovative solutions aiming to generate value and to improve our provision of basic sanitation services while promoting environmental protection and maintaining our competitiveness and profitability. In accordance with our bylaws, our activities comprise water supply, sanitary sewage services, urban rainwater management and drainage services, urban cleaning services, solid waste management services, and also related activities, including the planning, operation, maintenance and commercialization of energy, and the commercialization of services, products, benefits and rights that directly or indirectly arise from our assets, operations and activities. We are also authorized to carry out activities through subsidiaries in other Brazilian locations and in other countries. See Item “5.C. Research and Development, Patents and Licenses, Etc.”

***Establish efficient and competitive ways of motivating, retaining and attracting personnel.*** We intend to provide our personnel with programs for professional and personal development, growth opportunities and recognition. These programs include competitive benefit packages and a healthy and collaborative work environment. We seek to raise workplace satisfaction, well-being, engagement and productivity.

**Expand our sewage treatment coverage.** Our goal is to progress in the implementation of sewage collection and treatment structures in an economically and technologically viable way. We had an effective sewage coverage ratio of 91% as of December 31, 2019 and plan to increase this ratio to 95% by 2024 by adding over 1.2 million sewage connections and the indicator of consumer units connected to the sewage treatment system from 78% to 85% by 2024. These investments are necessary to restore the quality of the rivers and lakes, providing new sources for water supply. In addition, there are municipalities in the state of São Paulo representing a total population of approximately 14.7 million to which we currently do not provide water or sewage services, or to which we currently supply water solely on a wholesale basis. Our strong presence in the State and experience in providing water and sewage services places us in a privileged position to expand our sewage services to these additional municipalities in the state of São Paulo as well as to other Brazilian states and abroad. For more information, see “Item 4.B. Business Overview—Description of our Activities—Sewage Operations” and “Item 4.B. Business Overview—Competition” and “Item 4.B. Business Overview—Tariffs.”

Our strategic objectives also focus on our political and institutional relationships as well as on our commitment to the market to increase shareholder value.

In 2019 we invested R\$5.1 billion and between 2020 and 2024 we plan to invest an additional R\$20.2 billion to improve and expand our water and sewage systems, increase water security, and meet the growing demand for water and sewage services in the state of São Paulo, thereby encouraging these customers to continue using our services.

We believe that our overall strategy will enable us to meet the demand for high quality water and sewage services in the state of São Paulo as well as in other Brazilian states and abroad, while creating shareholder value and strengthening our results of operations and our financial condition.

## State of São Paulo

The state of São Paulo is one of 26 states that, together with the Federal District of Brasília, constitute the Federative Republic of Brazil. The state of São Paulo is located in the southeastern region of the country, which also includes the States of Minas Gerais, Espírito Santo and Rio de Janeiro, and which is, according to IBGE, the most developed and economically active region of Brazil. The state of São Paulo is located on the Atlantic coast of Brazil and is bordered by the states of Rio de Janeiro and Minas Gerais to the north, the state of Paraná to the south and the state of Mato Grosso do Sul to the west.

The state of São Paulo occupies approximately 3.0% of Brazil’s land mass and encompasses an area amounting to approximately 96,000 square miles. According to the SEADE, the state of São Paulo had an estimated total population of 44.5 million as of December 31, 2019. The city of São Paulo, capital of the state of São Paulo, had an estimated total population of 11.8 million, with a total population of 21.1 million inhabitants in the São Paulo metropolitan region, as of December 31, 2019. The São Paulo metropolitan region encompasses 39 municipalities and is the largest metropolitan region in the Americas and the fourth largest metropolitan region in the world, according to the United Nations’ Data Booklet “The World’s Cities in 2018,” with approximately 47.4% of the total population of the state of São Paulo as of December 31, 2019. In, the most recent data collected by the IBGE, the GDP of the state of São Paulo was approximately R\$2.1 trillion, representing approximately 32.2% of Brazil’s total GDP, and making it the largest economy of any state in Brazil based on GDP. According to the IBGE, the state of São Paulo is also the leading Brazilian state in terms of manufacturing and industrial activity, with a strong position in car manufacturing, pharmaceuticals, computer manufacturing, steel making and plastics, among other activities, as well as a leading position in the banking and financial services industries. The state of São Paulo is the leading export state in Brazil, according to the Brazilian Ministry of Development, Industry and Foreign Trade (*Ministério do Desenvolvimento, Indústria e Comércio Exterior*), currently Ministry of Economy (*Ministério da Economia*).

## History

Until the end of the nineteenth century, water and sewage services in the state of São Paulo were generally provided by private companies. In 1875, the Province of São Paulo granted a concession for the provision of water and sewage services to Cantareira Water and Sewage Company (*Companhia Cantareira de Água e Esgotos*). In 1893, the government of the Province of São Paulo assumed responsibility for the provision of water and sewage services from Cantareira Water and Sewage Company and formed the Office of Water and Sewers (*Repartição de Água e Esgotos*), a government agency. Since that time, water and sewage services in the São Paulo metropolitan region have been administered by the State government. Historically, water and sewage services in substantially all other municipalities of the State were administered directly by the municipalities, either by municipal water and sewage departments or through *autarquias* of the municipal government. *Autarquias* are relatively autonomous public bodies with separate legal standing, assets and revenues, created by law to carry out the administration of public services where the government deems that a decentralized administrative and financial structure would be advantageous.

In 1954, in response to dramatic population growth in the São Paulo metropolitan region, the State government created the Department of Water and Sewers (*Departamento de Águas e Esgotos*) as an *autarquia* of the State. The Department of Water and Sewers provided water and sewage services to various municipalities in the São Paulo metropolitan region.

A major restructuring of the entities providing water and sewage services in the state of São Paulo occurred in 1968, with the creation of the Water Company of the São Paulo metropolitan Region (*Companhia Metropolitana de Água de São Paulo*), or the “COMASP,” the purpose of which was to provide potable water on a wholesale basis for public consumption in the various municipalities of the São Paulo metropolitan region. All assets relating to the production of potable water for the São Paulo metropolitan region previously owned by the Department of Water and Sewers were transferred to COMASP. In 1970, the State government created the Superintendence of Water and Sewers of the City of São Paulo (*Superintendência de Água e Esgoto da Capital*), or the “SAEC,” to distribute water and collect sewage in the city of São Paulo. All assets relating to water services previously owned by the Department of Water and Sewers were transferred to the SAEC. Also in 1970, the State created the Basic Sanitation Company of the São Paulo metropolitan Region (*Companhia Metropolitana de Saneamento de São Paulo*), or the SANESP, to provide sewage treatment services for the São Paulo metropolitan region. All assets relating to sewage services previously owned by the Department of Water and Sewers were transferred to the SANESP. The Department of Water and Sewers was subsequently closed.

On June 29, 1973, pursuant to State Law No. 119/1973, COMASP, SAEC and SANESP merged to form our Company with the purpose of implementing the directives of the Brazilian government set forth in the National Water Supply and Sanitation Plan (*Plano Nacional de Saneamento*). We were incorporated under the laws of Brazil as a *sociedade anônima* for indefinite duration. The National Water Supply and Sanitation Plan was a program sponsored by the Brazilian government, which financed capital investments in, and assisted in the development of, state-controlled water and sewage companies. Since our formation, other State governmental and State-controlled companies involved in water supply and sewage collection and treatment in the state of São Paulo have been merged into our company. The State has always been our controlling shareholder, as required by State Law No. 11,454/2003. We have therefore been integrated into the State governmental structure and our strategies have been formulated in conjunction with the strategies of the São Paulo Secretariat for Infrastructure and Environment (*Secretaria de Infraestrutura e Meio Ambiente do Estado de São Paulo*). Additionally, a majority of the members of our board of directors and our management are appointed by the State Government.

Our capital expenditure budget is subject to approval by the State legislative chamber. This approval is obtained simultaneously with the approval of the budget of the São Paulo Secretariat for Infrastructure and Environment. We are also subject to supervision from the Court of Audit of the State of São Paulo (*Tribunal de Contas do Estado de São Paulo*), with regard to our accounting, financial and budgetary activities and our operating assets.

In 1994, we were registered with the CVM as a publicly-held company and are therefore subject to the CVM’s rules, including those relating to the periodic disclosure of extraordinary facts or relevant events. Our common shares have been listed on the B3 under the ticker “SBSP3” since June 4, 1997.

In 2002, we joined the *Novo Mercado* segment of the B3, which is the listing segment in Brazil with the highest corporate governance requirements. In the same year, we registered our common shares with the Securities and Exchange Commission, or SEC, and started trading our shares in the form of ADR – level III on the New York Stock Exchange, or NYSE, under the ticker “SBS.”

In 2004, the State of São Paulo carried out a secondary offer of common shares of our company in the Brazilian and international markets.

State Law No. 12,292/2006 amended State Law No. 119/1973, which created our company, and now authorizes us to provide water and sewage services outside of the state of São Paulo, both to other states of Brazil and to other countries. This law also authorizes us to own interests in other public or private-public companies and Brazilian or international consortia. In addition, this law permits us to incorporate subsidiaries and enter into a partnership with or acquire interests in a private company with a corporate purpose related to the sanitation business.

In December 2007, State Supplementary Law No. 1,025/2007, which provided for the creation of regulatory agencies for the supervision of water and sewage services, created ARSESP, the regulatory agency that regulates and supervises the services we provide.

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. However, 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*). On April 24, 2019, CDPED established a working group to evaluate alternatives for our corporate restructuring. For further information, see “Risk Factors—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.”

As of December 31, 2019, we provided water and sewage services directly to a large number of residential, commercial and industrial private consumers, as well as to a variety of public entities, in 372 of the 645 municipalities in the State, including in the city of São Paulo. We also supplied water on a wholesale basis to three municipalities in the São Paulo metropolitan region. According to the in Depth Water Yearbook 2014-2015, we are one of the largest water and sewage service providers in the world (based on the number of customers).

## **Corporate Organization**

We currently have six management divisions, each of which is supervised by one of our executive officers.

Our board of directors allocates responsibilities to our executive officers following an initial proposal made by our Chief Executive Officer, in accordance with our bylaws. The Chief Executive Officer is responsible for coordinating all management divisions in accordance with the policies and directives established by our shareholders' meeting, our board of directors and board of executive officers, including the coordination, evaluation and control of all functions related to the Chief Executive Officer's office and staff, integrated planning, business management and corporate organization, communication, ombudsman, regulatory affairs, compliance, risk management, audit and quality.

The Chief Executive Officer represents our company before third parties and certain powers can be granted to attorneys-in-fact. The executive officers described below report to the Chief Executive Officer:

- the Corporate Management Officer, who is responsible for marketing (commercial processes), human resources and social responsibility, legal affairs, information technology, asset management, supplies and contracts;
- the Chief Financial Officer and Investor Relations Officer, who is responsible for financial planning, collection of revenues, allocating financial resources to divisions of our company, conducting capital markets and other debt incurrence transactions and managing debt levels, controller, accounting, costs and tariffs, corporate governance and investor relations;
- the Technology, Enterprises and Environment Officer is responsible for environmental management, technological and operational development, quality control of water and sewage, the development, coordination and execution of special investment programs, projects, research innovation and new business ventures; and
- the Chief Operating Officer for the São Paulo metropolitan region Division and the Chief Operating Officer for the Regional Systems Division, who are responsible for managing the operation, maintenance, execution of works and services for water and sewage supply systems (including for the services that we provide on a wholesale basis), sales and call center services, and have overall responsibility for the financial and operational performance of their divisions. The Chief Operating Officers are also responsible for sanitation advisory services to independent municipalities, negotiating contracts for water supply and sewage treatment services and for mediation and negotiation with communities and local governments, aimed at aligning our interests with the interests of our clients.

## **Capital Expenditure Program**

Our capital expenditure program is designed to improve and expand our water and sewage system and to increase and protect our water sources in order to sustain water security, meet the growing demand for water and sewage services in the state of São Paulo and improve the overall environmental impact of our activities. Our capital expenditure program has four specific goals with respect to the municipalities we serve:

- (I) to continue to increase water security and meet increased demand for treated water;
- (II) to expand the percentage of households connected to our sewage system;
- (III) to increase the treatment of sewage collected; and
- (IV) to increase operating efficiency and reduce water loss.

We have budgeted investments in the total amount of R\$20.2 billion from 2020 through 2024. We invested R\$5.1 billion, R\$4.2 billion and R\$3.4 billion in 2019, 2018 and 2017, respectively.



The following table sets forth our planned capital expenditures for water and sewage infrastructure for the years indicated:

	Planned Capital Expenditures					
	2020	2021	2022	2023	2024	Total
	<i>(in millions of reais)</i>					
Water	1,677	1,640	1,505	1,586	1,693	8,101
Sewage Collection	1,526	1,873	2,022	1,999	1,870	9,290
Sewage Treatment	578	508	593	530	615	2,824
<b>Total</b>	<b>3,781</b>	<b>4,021</b>	<b>4,120</b>	<b>4,115</b>	<b>4,178</b>	<b>20,215</b>

Our capital expenditure program from 2020 through 2024 will continue to focus on achieving our targets by making regular investments to maintain and expand our infrastructure and to reduce water losses in the 372 municipalities we served as of December 31, 2019.

### Main Projects of Our Capital Expenditure Program

The following is a description of the main projects in our capital expenditure program.

**Investments in Water** – We have a series of ongoing and scheduled projects involving water production and distribution. For the period from 2020 through 2024, we plan to spend R\$8.1 billion in water-related investments. The main programs are:

#### *Metropolitan Water Program*

Demand for our water services has grown steadily over the years in the São Paulo metropolitan region and has at times exceeded the capacity of our water systems. On account of the high demand, prior to September 1998, a portion of our customers in this region received water only on alternate days of the week. We refer to this as “water rotation.” Further, the metropolitan region lacks water resources, which requires us to obtain water from increasingly distant sources. In order to address this situation, we implemented the Metropolitan Water Program (*Programa Metropolitano de Água*) to improve regular water supply to the entire São Paulo metropolitan region. This program terminated in 2000 and the water rotation measure was eliminated, but we have nevertheless maintained our investment plans for the region. In 2019, we invested approximately R\$185.1 million in the Metropolitan Water Program.

Since 2000, the Metropolitan Water Program has increased the production capacity by 13.1 m<sup>3</sup>/s, 5 m<sup>3</sup>/s of which can be attributed to the Public Private Partnership, or “PPP,” conducted in the Alto do Tietê concluded in 2011, 2.1 m<sup>3</sup>/s of which can be attributed to increased production in the Guarapiranga System, concluded in 2015, and 6 m<sup>3</sup>/s due to the implementation of the São Lourenço water supply system, or PPP São Lourenço, which was concluded in 2018 and directly benefits 1.5 million residents of the western and southwestern regions of the São Paulo metropolitan region.

With regard to PPP São Lourenço, as of December 31, 2019, the estimated amount of the PPP contract was R\$6.0 billion (including R\$2.2 billion in construction and maintenance and operation of the system). After monetary adjustment, the contract amounts to approximately R\$7.8 billion and has a 25-year term, four years of which was dedicated to the construction, while the other 21 years will be dedicated to service delivery. These services include the operation and maintenance of the sludge treatment system of the water treatment plant and disposal of the waste thus generated; electromechanic and civil maintenance of the untreated water pumping stations, of the water treatment plant and the untreated water pipeline; preservation and cleaning, surveillance and property security. The system indirectly benefits the entire São Paulo metropolitan region as it is connected to the metropolitan system, which increases the volume of available water.

Additionally, in March 2018 we concluded the interconnection of Jaguari (part of the Paraíba do Sul Basin) and Atibainha reservoirs (part of the PCJ River Basin, Cantareira System), which is also strategic to guarantee secure access to water for the metropolitan region of São Paulo. Through this project, we are able to transfer 5.13 m<sup>3</sup>/s (annual average) to 8.5 m<sup>3</sup>/s (maximum) of water from Jaguari to Atibainha, one of the reservoirs of Cantareira System. Since May 2018, the transfer of water also works in the opposite direction, from the Atibainha reservoir to the Jaguari reservoir, allowing us to reverse up to 12.2 m<sup>3</sup>/s and optimize the reservation capacity of both reservoirs, while benefiting the population of the Paraíba Valley.

### Reversal of the Itapanhaú River

The reversal of the Itapanhaú River to the Birita-Mirim River, part of the Alto Tietê system is expected to have the capacity to pump an average of 2 m<sup>3</sup>/s (maximum of 2.5 m<sup>3</sup>/s) of water to Biritiba-Mirim reservoir, part of the Alto Tietê system. The project aims to improve water security in the São Paulo metropolitan region and is expected to directly benefit approximately 4.5 million residents that receive water from the Alto Tietê system as well as indirectly benefit 21.1 million people in the greater São Paulo region. The project is pending environmental licenses and is expected to begin construction in 2020, with financial support from the Federal Savings Bank (*Caixa Econômica Federal*).

### Program for Reduction of Water Loss

The Program for Reduction of Water Loss (*Programa de Redução de Perdas de Água*) aims to reduce water loss by integrating initiatives in our business units. This program has a 12-year term that began in 2009. We anticipate total investments of approximately R\$6.2 billion (current value) throughout the term of the program. Funding for the program will come from our own resources as well as from credit facilities provided by the Japan International Cooperation Agency (JICA), BNDES, World Bank (IBRD) and incentivized debentures pursuant to Law No. 12.431/2011.

The program aims to reduce the rate of water loss from 430 liters per connection per day in December 2008 to 273 liters per connection per day by 2020, which is equivalent to reducing the Water Metered Loss Index (based on measured consumption) from 34.1% in December 2008 to 28.4% in December 2020. In 2019, we invested approximately R\$929.7 million in this program and our water loss measured 285 liters per connection per day and our Water Metered Loss Index averaged 29.0%.

### Coastal Water Program

The Coastal Water Program (*Programa Água no Litoral*) combines various long-term activities to expand water production capacity in the Baixada Santista metropolitan region and the southern coast of the state of São Paulo. The program aims to benefit approximately three million people, including both the local population and tourists. It aims to increase the level of reliability of the local systems, eliminating existing and potential deficiencies and irregularities in the water supply.

In order to reach this goal, we built two water treatment plants, which started operations in 2013: Mambu/Branco, with water treatment capacity of 1.6 m<sup>3</sup>/s, and Jurubatuba, with water treatment capacity of 2 m<sup>3</sup>/s. In 2019, two additional water treatment plants became operational in the municipality of Peruíbe as part of an ongoing plan to enlarge the treatment capacity of the water treatment plant Mambu Branco, from 1.6m<sup>3</sup>/s to 3.2m<sup>3</sup>/s, which we expect to conclude by 2021.

In 2016, the integrated system of the Baixada Santista metropolitan region was reinforced with the commencement of operations at the Melvi Treated Water Reserve Center, located in Praia Grande. The Center's reserves went from 20 million to 45 million liters. The infrastructure is part of the Mambu-Branco production center (inaugurated in 2013 in Itanhaém) and will serve residents and tourists in two municipalities of the Baixada Santista region (Praia Grande and São Vicente). The program is supported by funds from the *Caixa Econômica Federal* as well as our own funds. In 2019, we invested R\$36.5 million in the Coastal Water Program.

### Sustainable and Inclusive Sanitation Program

The Sustainable and Inclusive Sanitation Program integrates water security and social inclusion and is focused on the *Guarapiranga* reservoir area in the São Paulo Metropolitan Region, benefiting more than 1 million people. The Program aims to reduce water losses by replacing our water networks and implementing water supply infrastructure in houses with underdeveloped facilities, as well as to improve maintenance and safety control of *Guarapiranga* reservoir and to expand and optimize sewage collection, transportation and treatment systems in the area. The Program is supported by funds from the World Bank as well as our own funds.

**Investments in Sewage**—We have a series of ongoing and scheduled projects involving the collection, removal and treatment of sewage. For the period from 2020 through 2024, we plan to invest R\$12.1 billion in sewage collection and treatment. The main programs are:

### Tietê Project

We have been working in the metropolitan region of São Paulo in sanitation programs that aim to contribute to the revitalization of rivers and streams, and its main program is the Tietê Project.

Established in 1992, the project aims to contribute to the progressive revitalization of the Tietê river and its tributaries, in the Alto Tietê basin, where the metropolitan region of São Paulo is located, through the expansion and optimization of the sewage collection, transportation and treatment system.

Considering the complexity and challenges faced to implement infrastructure projects in crowded and disorderly urbanized areas such as São Paulo, it was necessary to structure the project in stages.

From 1992 to the end of 2019, the investments totaled US\$3.0 billion, of which R\$454 million were disbursed in 2019. Part of the resources allocated to the program are our own capital and the remainder comes from financings granted by the Inter-American Development Bank - IDB, BNDES and *Caixa Econômica Federal*.

During this period, 1.8 million domestic sewage connections were built and 4.5 thousand km of interceptors, trunk collectors and collection networks were built to collect and transport the sewage to treatment in our plants, whose installed capacity for treatment almost tripled.

As a result, the treated sewage outflow at the metropolitan region of São Paulo increased from four thousand liters per second in 1992 to the current 20.6 thousand liters per second. This increase, of 16.6 thousand liters per second, is equivalent to the sewage generated by approximately 11 million people. As a result, sewage collection that served 70% of the urbanized area of the metropolitan region of São Paulo in 1992 increased to 87% by the end of 2019. Sewage treatment increased from 24% to 81% of the volume collected.

By 2025, the program aims to increase the sewage collection rate in the metropolitan region of São Paulo to 92% and the treatment rate to 90% of the total collected, with the conclusion of the third stage, now under way with a 72% progress, and the works already planned for the fourth stage, with priority interventions currently in concurrent execution.

In 2018, the completion of the second phase of the expansion of Sewage Treatment Plant Barueri, the largest treatment plant in South America, allowed us to increase from 12 thousand liters per second (reached in 2017) to 16 thousand liters per second currently.

It is also worth mentioning the implementation of the ITi-7 sewage interceptor under the Marginal Tietê, a highway that runs through the city of São Paulo along with the Tietê River, which became operational in the beginning of 2020, benefiting approximately 2 million people living in the central and southern regions of the city of São Paulo, highly verticalized, with collector piping operating close to its limit. The project, which has approximately 15km in length, will allow the broadening of sewage disposal and treatment in the region, which will in turn guarantee greater operational security to the sewage system.

In November 2019, we signed a new loan agreement with IDB in the amount of US\$300 million for the partial financing of Project Tietê's fourth phase.

#### Novo Rio Pinheiros Project

The Novo Rio Pinheiros Project is an initiative of the São Paulo State Government that aims to clean up the Pinheiros river by 2022, in order to reintegrate it into the city and make it a leisure and tourism area. The project includes sewage services, riverbed dredging, programs for the collection and reduction of inadequate urban waste disposal, as well as environmental education actions.

We took part in the project by offering the expansion of the sewage collection network and the installation of new sewage connections in areas not yet served. In places where the connection to the existing infrastructure is not possible due to settlements along the river bank, as part of the project we will install small sewage treatment plants on the river's tributaries.

These initiatives are being contracted based on performance (Performance Contract), a form of service contracting that set goals to be achieved by the contractors, with the compensation varying according to the achievement of the proposed targets. That is, compensation will take place upon completion of the construction and will also have a variable part, depending on the final result achieved. Performance evaluation considers targets such as the number of new properties connected to the sewage network and stream water quality.

#### Clean Stream Program

The Clean Stream Program (*Programa Córrego Limpo*), a partnership between the State of São Paulo, our company, and the city of São Paulo, aims to decontaminate urban streams in the city of São Paulo by eliminating the discharge of sewage into streams and rainwater runoff routes, cleaning streams and banks, and removing and relocating low-income households located on the banks of streams.

Since 2007, 152 urban streams have been decontaminated and preserved, benefiting approximately 2.7 million people. In 2019, we invested R\$9.6 million in the Clean Stream Program. The program is supported by funds from the *Caixa Econômica Federal* as well as our own funds. Part of the investment related to the Tietê Project benefits the Clean Stream Program.

In 2019, we concluded the decontamination of an extensive stream in the city of São Paulo, the *Traição* stream, benefiting 215 thousand people and resulting in the piping of 275 liters per second of sewage. In addition, the decontamination of several other streams is in its final stages. Throughout the year, we also continue to inspect the water quality and carry out maintenance services of previously decontaminated streams as necessary.

Despite our constant monitoring of pollution levels, the municipality of São Paulo's difficulties in moving low-income families who live in risky areas has led to a slowdown in progress under the program. We have renewed the partnership with the municipality and the objectives for 2020 are under discussion.

### Clean Wave Program

The Clean Wave Program (*Programa Onda Limpa*) is the largest environmental sanitation program on the Brazilian coast. Its main goal is to improve and expand the sewage systems in the municipalities that cover the metropolitan region of Baixada Santista, seeking the universalization of sewage services in the region. The program will improve the condition of 82 beaches and will benefit approximately 4 million people, including locals and tourists who visit the coast, especially in the summer months.

Due to the complexity and challenges involved in the implementation of infrastructure projects in coastal regions, the Program was structured in stages. In the first phase, started in 2007, and among other actions 110 thousand sewage connections were implemented, resulting in the increase of the sewage coverage ratio from 53% to 83% in 2019, reaching 100% treatment of the sewage collected. We invested R\$2 billion in this phase, with our own resources and financing from JICA and BNDES.

The second phase of the Program began in 2018 and aims to implement approximately 450 km of sewage collection network, 48 thousand new connections, three new sewage treatment plants and improvements to existing sewage treatment plants. In 2019, we began works on sewage collection networks and new connections in the municipalities of *Praia Grande*, *Mongaguá*, *São Vicente* and *Intanhaém*. We expect to complete this stage in 2025, with 92% sewage collection and maintenance of sewage treatment index collected.

The execution of the third stage of the Program is estimated between 2025 and 2030, and a forecast of 95% sewage collection and treatment of all sewage collected.

### ***Other Policies and Programs***

#### *Nossa Guarapiranga*

The Nossa Guarapiranga Project launched in December 2011 is still running. Its main objective is to improve the water quality in the Guarapiranga basin, an urban water source for the São Paulo metropolitan region. The basin serves one million people directly in the areas near Guarapiranga reservoir and indirectly serves a further three million people who consume the water from this water basin. We carried out actions on three fronts as part of this project: (i) we installed ecobarriers at the mouth of the reservoir's main affluents in order to retain solid residue in the Guarapiranga basin; (ii) we developed diagnosis and control services for the removal of water plants that obstruct water extraction; and (iii) we removed and disposed of solid residue that had accumulated at the water surface of the dam in the reservoir. Two vessels were built specifically for this purpose. We work as a collaborative team with the municipal government of São Paulo in the Nossa Guarapiranga Project, with the municipal government of São Paulo transporting all of the residue collected through these fronts to a sanitary landfill. In 2019, we removed an average of 1.152 m<sup>3</sup>/month of solid residue and approximately 217 m<sup>3</sup>/month of water plants from this basin.

#### *Pró-Conexão*

In 2012, the State of São Paulo approved a project to subsidize connections to the sewage system for low-income families. Initially intended to last eight years, the project involves capital expenditures of up to R\$349.5 million of which 80% will be provided by the State government and 20% by us. In this period, we expect that this program will create 192 thousand new sewage connections benefiting approximately 800 thousand people. As of December 2019, we completed approximately 28.2 thousand sewage connections under the *Pró-Conexão* program.

We believe that this program will increase the efficiency of our other sewage collection programs and help improve water quality in the region's rivers and basins as well as improve quality of life for low-income families. For more information see "Item 7.B. Major Shareholders and Related Party transactions—Related Party transactions—Agreements with the State."

A large part of this work was executed by our own personnel, which considerably reduced the need for investment.

## **B. Business Overview**

### **Our Operations**

As of December 31, 2019, we provided water and sewage services to 372 municipalities in the state of São Paulo under concession agreements, program agreements, other forms of legal arrangements or without formal agreements. We also supplied treated water on a wholesale basis to three municipalities located in the São Paulo metropolitan region and urban conurbations. The majority of these concessions have 30-year terms. Due to court orders, we suspended our services in two other municipalities (Cajobi and Macatuba). For more information, see “Item 8.A. Financial Statements and Other Financial Information—Legal Proceedings.” Between January 1, 2007 and December 31, 2019, we entered into agreements with 325 municipalities (including our services agreement with the city of São Paulo) in accordance with the Basic Sanitation Law, of which eighteen were entered into in 2019. As of December 31, 2019, these 325 municipalities accounted for 85.0% of our gross operating revenues from sanitation services (excluding revenues relating to the construction of concession infrastructure). In addition to the contracts, the municipalities entered into cooperation contracts with the State of São Paulo, delegating the regulation and monitoring of the provision of services to ARSESP. As of December 31, 2019, 21 of our agreements or concessions had expired but we continued to provide water and sewage services to these municipalities and were in negotiations with these municipalities to execute program agreements to substitute the expired concessions. From January 1, 2020 through 2030, 27 concessions will expire.

For more information on laws and regulations related to our concession operations, see “—Government Regulations Applicable to our Contracts.”

### **Description of Our Activities**

As set forth in Article 2 of our bylaws, we are permitted to render basic sanitation services with the goal of providing basic sanitation services to the entire population in the municipalities where we conduct our activities without harming our long-term financial sustainability. Our activities comprise water supply, sanitary sewage services, urban rainwater management and drainage services, urban cleaning services, solid waste management services and related activities, including the planning, operation, maintenance and commercialization of energy, and the commercialization of services, products, benefits and rights that directly or indirectly arise from our assets, operations and activities. We are allowed to act in a subsidiary form in other Brazilian locations and abroad. See “—Government Regulations Applicable to Our Contracts—Establishment of ARSESP.” For a description of our operating segments please see Note 25 to our financial statements as of and for the year ended December 31, 2019.

Operating segments are presented in our annual report in a manner consistent with the internal reporting provided to our chief operating decision maker, which is the board of directors and the board of executive officers, as determined under IFRS 8. Under Brazilian GAAP, prior to our conversion to IFRS, the financial information for construction services was not separately presented and construction costs related to concessions were capitalized within property, plant and equipment. As a result, our chief operating decision maker did not review the results of this business. Following our conversion to IFRS, our chief operating decision maker decided to continue to exclude the construction results from the internal reporting of our revenues and expenses, thus not basing their decisions on discrete financial information for that business. Consequently, the business did not qualify as an operating segment under IFRS 8. Nonetheless, after our conversion to IFRS and for IFRS financial statement purposes only, we started to record such results separately as construction revenue and costs under IFRIC 12. Although such information is available discretely, it is not analyzed by our chief operating decision maker as such and is not the basis for operational decisions.

We set forth below a description of our activities.

#### ***Wholesale Operations***

##### ***Wholesale Water Services***

Until the end of 2019, we provided water services on a wholesale basis to three municipalities located in the São Paulo metropolitan region (Mauá, Mogi das Cruzes and São Caetano do Sul). The municipalities of Guarulhos and Santo André were both served on a wholesale basis until December 2018 and July 2019, respectively, after which we started supplying water directly to the population of these municipalities which means we now account for them as part of our retail segment. Agreements to provide water services on a wholesale basis must comply with the Basic Sanitation Law which requires that the service be supervised by an independent agency, stipulates registration of the cost of the service with the rules published by ARSESP. Our agreements currently comply with the provisions of the Basic Sanitation Law No. 11.445/2007. In 2019, the revenues from wholesales water services were R\$1,385.4 million, the main impact of which was related to the agreement with the municipality of Santo André. For more information on this agreement, see Note 9 to our 2019 financial statements.

The Brazilian courts could oblige us to continue to supply water to these municipalities, even when we have not received payments due to us. If they do not pay, we have no way of ensuring that negotiations with these municipalities or legal action taken against them will result in payments being made. For example, the municipality of Mauá still owes us significant sums in respect of water that we have been providing to it on a wholesale basis. For more information, see “Item 3.D. Risk Factors—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 have intensified the process of collecting these sums. In August 2019, we executed a new Protocol of Intentions with the municipality of Mauá aiming to resolve commercial relations and the municipality’s outstanding debt with us. On January 16, 2020, a municipal law was sanctioned, allowing the municipal government of Mauá to sign agreements and amendments and any other type of 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.

#### Wholesale Sewage Services

Currently, we provide sewage services on a wholesale basis to the municipalities of Mogi das Cruzes and São Caetano do Sul.

In July 2019, we entered into an agreement with the municipality of Santo André to direct supply water and sewage services to the municipality for 40 years. The municipality of Santo André was served on a wholesale basis until July 2019. Through these agreements, in 2019 we invoiced approximately 16 million cubic meters of sewage collected from these municipalities served on a wholesale basis. In 2019, our revenues from wholesale sewage services were R\$33.1 million.

#### Water Operations

Our supply of water to our customers generally involves water extraction from various sources, subsequent treatment and distribution to our customers’ premises. In 2019, we produced approximately 2,873.2 million of cubic meters of water. The São Paulo metropolitan region (including the municipalities to which we supply water on a wholesale basis) currently is, and has historically been, our core market, accounting for approximately 70% of water invoiced by volume in 2019.

The following table sets forth the volume of water that we produced and invoiced for the periods indicated:

	<b>Year ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
	<i>(in millions of cubic meters)</i>		
Produced:			
São Paulo metropolitan region	2,012.5	1,959.6	1,952.3
Regional Systems	860.7	840.1	830.9
<b>Total</b>	<b>2,873.2</b>	<b>2,799.7</b>	<b>2,783.2</b>
Invoiced:			
São Paulo metropolitan region	1,363.5*	1,194.5	1,175.8
Wholesale	82.9	262.7	256.7
Regional Systems	666.3	650.7	643.4
<b>Total</b>	<b>2,112.7</b>	<b>2,107.9</b>	<b>2,075.9</b>

\* Includes the volume billed for the municipality of Guarulhos in the retail segment in 2019 and in the wholesale segment in 2018. Also includes the volume billed for the municipality of Santo André in the retail segment as from October 2019 and in the wholesale segment until September 2019.

The difference between the volume of water produced and the volume of water invoiced generally represents both physical and non-physical water loss. See “—Water Loss.” In addition, we do not invoice:

- water discharged for periodic maintenance of water transmission lines and water storage tanks;
- water supplied for municipal uses such as firefighting;
- water consumed in our own facilities; and
- estimated water loss associated with water we supply to shantytowns (*favelas*).

#### Seasonality

Although seasonality does not affect our results in a significant way, in general, higher water demand is observed during the summer and lower water demand during the winter. The summer coincides with the rainy season, while the winter corresponds to the dry season. The demand in the coastal region is increased by tourism, with the greatest demand occurring during the Brazilian summer holiday months.

## Water Resources

We can withdraw water only to the extent permitted by the Department of Water and Electric Energy (*Departamento de Águas e Energia Elétrica – DAEE*) pursuant to water rights granted by it. Depending on the geographic location of the river basin or if the river crosses more than one state (federal domain), the approval of ANA, a federal agency under the Ministry of Regional Development is required. We currently withdraw substantially 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. For more information on water usage regulation, see “—Environmental Matters—Water Usage.”

In order to supply water to the São Paulo metropolitan region, as of December 31, 2019 we relied on 20 reservoirs of non-treated water and 243 reservoirs of treated water, which are located in the areas under the influence of the ten water producing systems (including the Guarulhos water supply system) comprising the interconnected water system of the São Paulo metropolitan region. The total capacity of the water sources available for treatment in this area is 82.3 m<sup>3</sup>/s. Total current installed capacity is 81.7 m<sup>3</sup>/s and can be distributed to the São Paulo metropolitan region. Average verified production for the interconnected water system of the São Paulo metropolitan region was 62.9 m<sup>3</sup>/s during 2019. The Cantareira, Guarapiranga and Alto Tietê systems produce 81% of the water we distributed in the São Paulo metropolitan region in 2019.

In March 2018, we began operations of one of the important projects for the interconnected water system of the São Paulo metropolitan region with the beginning of the transfer of water from the Jaguari reservoir to the Atibainha reservoir. The interconnection between the Jaguari and Atibainha reservoirs has an average flow of 5.13m<sup>3</sup>/s and represents an important increase in water security for the Cantareira System and for the water supply in the São Paulo metropolitan region. For more information see “—Capital Expenditure Program—Main Projects of Our Capital Expenditure Program—Investments in Water.”

The construction of the São Lourenço Production System, another important project for the interconnected water system of the São Paulo metropolitan region, began in April 2014 and was completed in April 2018 and operations began in July 2018. The São Lourenço Production System represents an increase of 6.4m<sup>3</sup>/s in water availability and 6.0m<sup>3</sup> production capacity of the region’s integrated system and is the ninth interconnected production system for the Metropolitan Region. For more information see “—Capital Expenditure Program—Main Projects of Our Capital Expenditure Program— Investments in Water.”

In 2019, the Cantareira system accounted for 38% of the water that we supplied to the São Paulo metropolitan region (including the municipalities to which we supplied water on a wholesale basis), which represented 73.4% of our operating revenues from sanitation services (excluding revenues relating to the construction of concession infrastructure) for the year. For more information, see “Item 3.D. Risk Factors—Risks Relating to Our Business—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.”

Current river basin committees are authorized to charge both for water usage and the dumping of sewage into water bodies. We participate in the decentralized and integrated management of water resources established by the National Policy on Water Resources. We are represented by our employees on the State River Basin Committees and the Federal Committees that act in the state of São Paulo and in the National and State Councils on Water Resources.

The following table sets forth the water production systems from which we produce water for the São Paulo metropolitan region:

	<b>Production Rate<sup>(1)</sup></b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
	<i>(in cubic meters per second)</i>		
<b>Water production system:</b>			
Cantareira	23.8	23.9	25.0
Guarapiranga	12.7	13.4	13.3
Alto Tietê	14.3	12.9	11.8
Rio Claro	3.1	3.4	3.9
Rio Grande (Billings reservoir)	4.3	4.3	4.5
Alto Cotia	1.2	1.1	1.2
Baixo Cotia <sup>(2)</sup>	-	0.2	0.8
Ribeirão da Estiva	0.1	0.1	0.1
São Lourenço	3.1	1.6	-
Guarulhos	0.3	-	-
<b>Total</b>	<b>62.9</b>	<b>60.9</b>	<b>60.6</b>

(1) Average of the twelve months ended December 31, 2019, 2018 and 2017.

(2) At the beginning of 2018, the region served by the Baixo Cotia system began to be supplied by the São Lourenço system.

The Guarapiranga and Billings reservoirs and a portion of some of the reservoirs of the Alto Tietê system are owned by other companies controlled by the State. In the cities of the interior region of São Paulo, our principal source of water consists of surface water from nearby rivers and from wells, whereas in coastal areas, our principal source of water consists of surface water from rivers and mountain springs. For additional information on the Alto Tietê system, see “Item 7.B. Related Party Transactions—Transactions with the State of São Paulo—Agreements with the State.”

Statewide, we estimate that we are able to supply nearly all of the demand for water in all of the areas where we operate, subject to droughts and extraordinary climate events. We installed 204.8, 199.1 and 207.3 thousand new water connections in 2019, 2018 and 2017, respectively. The interconnected water system of the São Paulo metropolitan region serves 30 municipalities, of which 27 are operated directly by us under this system. Through this system, we serve the other three municipalities on a wholesale basis whereas distribution is the responsibility of other companies or departments related to each municipality.

In order to reach the final customer, the water is stored and transported through a complex and interconnected system. This water system requires permanent operational supervision, engineering inspection, maintenance, and quality monitoring and measurement control.

To ensure the continuous provision of regular water supply in the São Paulo metropolitan region, we intend to invest R\$8.1 billion from 2020 to 2024 to increase our water production and distribution capacities as well as to improve the water supply systems. In 2019, our total investment in water supply systems amounted to R\$2.5 billion, of which R\$2.0 billion were invested in the São Paulo metropolitan region.

#### *Water Treatment*

We treat all water at our water treatment facilities prior to dispatching it to our water distribution network. We operate 253 treatment facilities, of which ten are a part of the Metropolitan Production System—located in the São Paulo metropolitan region and account for approximately 70.0% of all water we produced in 2019. The type of treatment used depends on the nature of the source and quality of the untreated water. For example, water abstracted from rivers requires more treatment than water withdrawn from groundwater sources. All of the water we treat receives fluoridation treatment.

#### *Water Distribution*

We distribute water through our networks of water pipes and water transmission lines, ranging in size from 2.5 meters to 75 millimeters in diameter. Storage tanks and pumping stations regulate the volume of water flowing through the networks in order to maintain adequate pressure and continuous water supply.

The following table sets forth the total number of kilometers of water pipes and water transmission lines and the number of connections in our network as of the dates indicated:

	<b>As of December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
Water distribution pipes and water transmission lines (in kilometers)	81,324	75,519	74,396
Number of connections (in thousands)	9,933	9,053	8,863

More than 90% of the water pipes in our water distribution network are made of cast iron or polyvinylchloride, or PVC. Distribution pipes at customers’ residences typically are made from high-density polyethylene tubing. Our water transmission lines are mostly made of steel, cast iron or concrete.

As of December 31, 2019, our water distribution pipes and water transmission lines included: (i) 42,158 kilometers in the São Paulo metropolitan region; and (ii) 39,167 kilometers in the Regional Systems.

As of that date, we had 397 storage tanks in the São Paulo metropolitan region with a total capacity of 2.4 million cubic meters, and 2,101 storage tanks in the Regional Systems. Furthermore, we had 465 treated water pumping stations in the São Paulo metropolitan region aqueduct system, including stations at treatment facilities, intermediate trunk transfer pumping stations and small booster stations serving local areas.

Water transmission lines that require maintenance are cleaned and their lining is replaced. We are typically notified of water main fractures or breaks by the public through a toll-free number maintained by us. We consider the condition of the water pipes and water transmission lines in the São Paulo metropolitan region to be adequate as of the date of this annual report. Due to age, external factors such as traffic, the dense population, and commercial and industrial development, water pipes and water transmission lines in the São Paulo metropolitan region are somewhat more susceptible to degradation than those in the Regional Systems. To counter these effects, we have a maintenance program in place for water pipes and water transmission lines that is intended to address anticipated fractures and clogs due to brittleness and encrustation, and to help ensure water quality in the region.



The new customers whose water pipes are more than 20 meters away from the water transmission lines are responsible for covering part of the costs of connecting to our water distribution network. They must cover the costs of connecting to the network from the customer's premises, including costs of purchasing and installing the water meter and related labor costs. We perform the installation of the water meter and conduct periodical inspections and measurements. After completion of installation, the customer is responsible for the water meter.

The following table sets forth projected new water connections for the periods indicated in thousands:

	<i>in thousands</i>					
	2020	2021	2022	2023	2024	2020 – 2024
São Paulo metropolitan region	129	122	122	122	113	608
Regional Systems	65	65	65	65	64	324
<b>Total</b>	<b>194</b>	<b>187</b>	<b>187</b>	<b>187</b>	<b>177</b>	<b>932</b>

#### Water Loss

The difference between the volume of water produced and the volume of water invoiced generally represents both physical and non-physical water loss.

The Water Billed Loss Index represents the quotient of (i) the difference between (a) the total volume of water produced minus (b) the total volume of water invoiced plus (c) the volume of water excluded from our calculation of water loss, divided by (ii) the total volume of water produced.

The Water Metered Loss Index represents the quotient of (i) the difference between (a) the total volume of water produced minus (b) the total volume of water measured minus (c) the volume of water that we exclude from our calculation of water loss, divided by (ii) the total volume of water produced.

The Water Loss per Connection per day measured in liters per connection per day represents the quotient of (i) the average annual water loss, divided by (ii) the average number of active water connections multiplied by the number of days of the year. This calculation method is based on worldwide market practice for the sector.

We exclude the following from our calculation of water loss: (i) water discharged for periodic maintenance of water transmission lines and water storage tanks; (ii) water supplied for municipal uses such as firefighting; (iii) water we consume in our facilities; and (iv) estimated water loss related to the supply of water to shantytowns (*favelas*).

Among the principal indicators utilized to measure rates of water loss are the following:

- Water Billed Loss Index (WBLI), in %;
- Water Metered Loss Index (based on metered consumption) (WMLI); and
- Water Loss per Connection, (TLDC) in liters per connection per day.

These indicators are calculated by applying the following formulas:

$$\text{WBLI} = \frac{V_{\text{produced}} (V_{\text{invoiced}} + V_{\text{used}})}{V_{\text{produced}}}$$

$$\text{WMLI} = \frac{V_{\text{produced}} - (V_{\text{measured}} + V_{\text{used}})}{V_{\text{produced}}}$$

$$\text{TLDC} = \frac{V_{\text{produced}} - (V_{\text{measured}} + V_{\text{used}})}{N_{\text{connection}} \times \text{No. of days of a given period}}$$

Where:

**V<sub>produced</sub>**: corresponds to the volume of water produced at a given period;

**V<sub>billed</sub>**: corresponds to the volume of water billed at a given period;

$V_{\text{measured}}$ : corresponds to the volume of water measured at a given period;

$V_{\text{used}}$ : corresponds to the volume of water used for operational, public, private and social needs (supply shantytown areas) at a given period; and

$N_{\text{connections}}$ : corresponds to the average number of active water connections.

Using this calculation method, as of December 31, 2019, we experienced 331 liter/connection per day of water loss in the São Paulo metropolitan region and 216 liter/connection per day of water loss in the Regional Systems, averaging 285 liter/connection of water loss per day. We have a Program for Reduction of Water Loss in place that aims to reduce total water loss to around 273 liters/connection per day, and the Water Metered Loss Index to 28.4% by 2020.

Real water loss (water physically lost) fell from 22.2% in December 2008 to 19.0% in December 2019.

Our strategy to reduce water loss has two approaches:

- reduction in the level of physical loss, which results mainly from leakage. To this end we are replacing and repairing water transmission lines and pipes and installing probing and other equipment, including strategically located pressure regulating valves; and
- reduction of non physical loss, which results primarily from the inaccuracy of our water meters installed at our customers' premises and from clandestine and illegal use. To this end we are upgrading and replacing inaccurate water meters, increase anti-fraud actions and expanding our anti fraud personnel.

We are taking measures to decrease physical loss by reducing response time to fix leakages and by better monitoring of non-visible water main fractures. Among other initiatives, we have adopted the following measures to reduce physical water loss:

- the introduction of technically advanced valves to regulate water pressure throughout our water transmission lines in order to maintain appropriate water pressure downstream. These valves are programmed to respond automatically to variations in demand. During peak usage, the flow of water in the pipes is at its highest point; however, when demand decreases, pressure builds up in the water transmission lines and the resulting stress on the network can cause significant water loss through cracks and an increase in ruptures of the pipes. The technically advanced valves are equipped with probes programmed to feed data to the valve in order to reduce or increase pressure to the water transmission lines as water usage fluctuates; the reconfiguration of interconnected water distribution to permit the distribution of water at lower pressure;
- the implementation of routine operational leak detection surveys to reduce overall water loss;
- the monitoring of and improved accounting with respect to water connections, especially for large volume customers;
- regular checking on inactive customers and monitoring non residential customers that are accounted for as residential customers and, therefore, billed at a lower rate;
- preventing fraud with the use of new, more sophisticated water meters that are more accurate and less prone to tampering;
- installing water meters where none are present; and
- conducting preventive maintenance of existing and newly installed water meters.

### *Water Quality*

We believe that we supply high quality treated water that is consistent with the standards set by Brazilian law, which are similar to the standards set in the United States of America and Europe. Pursuant to the Brazilian Ministry of Health (*Ministério da Saúde*) regulations, we have significant statutory obligations regarding the quality of treated water.

In general, the state of São Paulo has excellent water quality from underground or surface water sources. However, high rates of population growth, increased urbanization and disorganized occupation of some areas of the São Paulo metropolitan region have reduced the quantity and quality of water available to serve the population in the southern area of the São Paulo metropolitan region and in the coastal region. Currently, we successfully treat this water to make it potable. We are also investing in improvements of our water transmission lines and our treatment systems to ensure the quality and availability of water for the upcoming years.

Water quality is monitored at all stages of the distribution process, including at the water sources, water treatment facilities and in the distribution network. We have 15 regional laboratories, one central laboratory, and laboratories located in all water treatment facilities that monitor water quality, as required by our standards and those set by law. Our laboratories analyze an average of 90 thousand samples per month on distributed water, with samples collected from residences. Our central laboratory located in the city of São Paulo is responsible for organic compound analysis using the chromatographic and spectrometric methods as well as heavy metals analysis by Inductively Coupled Plasma (ICP). Our central laboratory and 13 of our regional laboratories have obtained the ABNT NBR ISO IEC 17025 accreditation (accreditation for general requirements for the competence of testing and calibration laboratories) awarded by the National Institute of Metrology, Quality and Technology, or INMETRO.

All chemical products used for water treatment are analyzed and follow strict specifications set out in recommendations made by the National Health Foundation (*Fundação Nacional de Saúde*), or NHF, ABNT, and the National Standard Foundation, or NSF, and the American Water Works Association, or AWWA, to eliminate toxic substances that are harmful to human health. From time to time, we face problems with the proliferation of algae, which may cause an unpleasant taste and odor in the water. In order to mitigate this problem, we work on: (i) fighting algae growth at the water source and (ii) using advanced treatment processes at the water treatment facilities that involve the use of powdered activated carbon and oxidation by potassium permanganate. The algae growth creates significant additional costs for water treatment because of the higher volumes of chemicals used to treat the water. We also participate in the Clean Stream Program to clean important streams in the city of São Paulo. Other initiatives also aimed at improving the water quality in the water sources located in the of São Paulo metropolitan region are *Nossa Guarapiranga* and *Pró-Conexão*. See “—Main Projects of Our Capital Expenditure Program—Clean Stream Program,” and “—Other Policies and Programs—Nossa Guarapiranga.”

We believe that there are no material instances where our standards are not being met. However, we cannot be certain that future breaches of these standards will not occur.

#### *Fluoridation*

As required by Brazilian law, we add fluoride to the water at our treatment facilities prior to its distribution into the water supply network. Fluoridation primarily consists of adding fluorosilicic acid to water at between 0.6 mg/L and 0.8 mg/L to assist in the prevention of tooth decay among the population.

#### *Sewage Operations*

We are responsible for the collection, removal, treatment and final disposal of sewage. As of December 31, 2019, we collected approximately 83% and 86% of all the sewage produced in the municipalities in which we operate in the São Paulo metropolitan region and in the Regional Systems, respectively. During 2019, we collected approximately 84% of all the sewage produced in the municipalities in which we operated in the state of São Paulo. We installed 237.0 thousand, 215.3 thousand and 221.8 thousand new sewage connections in 2019, 2018 and 2017, respectively.

#### *Sewage System*

The purpose of our sewage system is to collect and treat sewage and to adequately dispose of the treated sewage. As of December 31, 2019, we were responsible for the operation and maintenance of 55,983 kilometers of sewage lines, of which approximately 29,607 kilometers are located in the São Paulo metropolitan region and 26,376 kilometers are located in the Regional Systems, respectively.

The following table sets forth the total number of kilometers of sewage lines and the total number of sewage connections in our network for the periods indicated:

	<b>As of December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
Sewage lines (in kilometers)	55,983	51,788	50,991
Sewage connections (in thousands)	8,326	7,495	7,302

Our sewage system comprises a number of systems built at different times and constructed primarily from clay pipes and, more recently, PVC tubing. Sewage lines larger than 0.5 meters in diameter are primarily made of concrete. Our sewage system is generally designed to operate by gravitational flow, although pumping stations are required in certain parts of the system to ensure the continuous flow of sewage. Where pumping stations are required, we use sewage lines made of cast iron.

The public sewage system operated by us was structured in order to receive, in addition to household effluents, a portion of non-domestic effluents (such as industrial sewage and sewage from other non-domestic sources) for treatment together with household effluents. Non-domestic effluents have characteristics that are qualitatively and quantitatively different from household effluents. As a result, the discharge of non-domestic effluents into the public sewage system is subject to compliance with specific legal demands with the purpose of protecting the sewage collection and treatment systems, the health and safety of operators and the environment. The current environmental legislation establishes standards for the discharge of these effluents into the public sewage system and stipulates that such effluents be subject to pretreatment. These standards are defined in State Decree No. 8,468/1976.

Before the discharge is permitted, we carry out acceptance studies that assess the capacity of the public sewage system to receive it as well as the compliance with regulations. Upon the conclusion of these studies, the technical and commercial conditions for receiving the discharge are established, which are then formalized in a document signed by us and the effluent producer. Failure to comply with these conditions can lead to the application of penalties by us. In extreme cases, the State of São Paulo Environmental Company (*Companhia Ambiental do Estado de São Paulo*), or CETESB, is notified in order for the applicable measures to be taken. Effluents from our treatment facilities must comply with limitation guidelines for release of effluents into receiving water bodies. Additionally, the quality of the water in the receiving water body must not be impaired by the release of such effluents, as established by State Law No. 997/1976 regulated by State Decree No. 8,468/1976 and Conama Resolution No. 357/2005, as amended by Conama Resolution No. 430/2011 and Conama Resolution No. 397/2008.

We considered the condition of the sewage lines in the São Paulo metropolitan region to be adequate as of the date of this annual report. Due to a greater volume of sewage collected, a higher population and more extensive commercial and industrial development, the sewage lines in the São Paulo metropolitan region are more deteriorated than those of the Regional Systems. To counter the effects of deterioration, we maintain an ongoing program for the maintenance of sewage lines intended to address anticipated fractures arising from obstructions caused by system overloads.

Unlike the São Paulo metropolitan region, the interior region of São Paulo State does not generally suffer obstructions caused by sewage system overload. The coastal region, however, experiences obstructions in its sewage lines primarily due to infiltration of sand, especially during the rainy season in the summer months. In addition, the sewage coverage ratio in the coastal region is lower than in the other regions served by us, at approximately 81% as of December 31, 2019.

New sewage connections are made on substantially the same basis as connections to water lines: we assume the cost of installation for the first 20 meters of sewage lines from the sewage network to all customers' sewage connections and the customer is responsible for the remaining costs.

The following table sets forth projected new sewage connections for the periods indicated:

	<i>in thousands</i>					
	2020	2021	2022	2023	2024	2020–2024
São Paulo metropolitan region	162	152	148	148	148	758
Regional Systems	78	88	92	85	85	428
<b>Total</b>	<b>240</b>	<b>240</b>	<b>240</b>	<b>233</b>	<b>233</b>	<b>1,186</b>

#### *Sewage Treatment and Disposal*

In 2019, approximately 66% and 99% of the consumer units of the sewage services used our sewage treatment system in the São Paulo metropolitan region and the Regional Systems, respectively, or 78% of the consumer units of our sewage services in the state of São Paulo, was connected at our treatment facilities and afterwards discharged into receiving water bodies such as rivers and the Atlantic Ocean, in accordance with applicable legislation. Though we have not yet reached full coverage of sewage collection and treatment services in the regions where we operate, we are making efforts to reach this goal.

We currently operate eight ocean outfalls and 561 sewage treatment facilities, of which the five largest, located in the São Paulo metropolitan region, have a treatment capacity of approximately 24.5 cubic meters of sewage per second.

In the São Paulo metropolitan region, the treatment process used by most treatment facilities is the activated sludge process.

Sewage treatment in the Regional Systems will vary according to the particularities of each area. In the interior region of São Paulo State, treatment consists largely of stabilization ponds. There are 489 secondary treatment facilities in the interior region of São Paulo State that have treatment capacity of approximately 16.7 cubic meters of sewage per second. Similar to our disposal process for treated sewage collected in the São Paulo metropolitan region, the majority of sewage collected in the coastal region receives treatment and disinfection and is then discharged into rivers and also into the Atlantic Ocean through our ocean outfalls, in accordance with applicable legislation. We have 43 sewage treatment facilities in the coastal region.

We are a party to a number of legal proceedings related to environmental matters. See “Item 8.A. Financial Statements and Other Financial Information—Legal Proceedings.” In addition, our capital expenditure program includes projects to increase the amount of sewage that we treat. See “Item 4.A. History and Development of the Company—Capital Expenditure Program” and “Item 4.B. Business Overview—Environmental Matters—Environmental Regulation—Sewage Requirements.”

### Sludge Disposal

The generation of sludge is inherent to the sanitation cycle. The treatment of water and sewage produces residue which needs to be disposed appropriately to prevent harm to the environment. Sludge removed from the treatment process typically contains water and a very small proportion of solids. We use filter presses, belt filter presses, drying beds and centrifugation machines, among other processes, to dewater the sludge, reducing the solid content to a range of 20% to 25% by the end of the treatment process.

Currently, the sludge generated through our activity goes mainly to landfills authorized to receive it. In some cases, in return, we treat the leachate generated in these landfills.

Current legislation and the population at large demand advances in the search for alternative technologies that minimize the generation of and find beneficial uses for sludge. In light of these demands, we work on several fronts, seeking innovative approaches to the destination and final disposal of sludge. For instance, since 2018 we produce an agricultural organic fertilizer in the municipality of Botucatu, *Sabesfertil*, which is produced by biodrying sewage sludge. This project was approved by the Ministry of Agriculture and allows for the sale of such fertilizer.

Additionally, using financing from Funding Authority for Studies and Projects (*Financiadora de Estudos e Projetos*, or FINEP), we are also developing two other projects. The first project uses a plasma gasification system that uses specialist technology to transform sludge from sewage treatment plants into a solid vitreous product, weighing 5% of its initial weight, which can be re-used in construction work. The second project consists of a sludge dryer that uses sunlight and highly automated processes, resulting in a final product that weighs 25% of its initial weight.

Sludge disposal must comply with State and Federal law requirements, such as Federal Law No. 12,305/2010, regulated by Federal Decree No. 7,404/2010, State Law No. 12,300/2006, regulated by and State Decree No. 54,645/2009, and Resolution No. 375/2006 of the CONAMA. Our technical staff participate into different thematic groups of the sanitation sector, which contributes to the technical improvement of the regulations which apply to the use and appropriate disposal of the waste.

### Principal Markets in Which We Operate

As of December 31, 2019, we operated water and sewage systems in 372 of the 645 municipalities in the state of São Paulo. In addition, we supplied water on a wholesale basis to three municipalities located in the São Paulo metropolitan region with a total population of approximately 1.0 million people.

The following table provides a breakdown of gross revenues from sanitation services by geographic market for the years indicated:

	<b>Year ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
			<i>(in millions of R\$)</i>
São Paulo metropolitan region	11,849.8	10,295.5	8,636.9
Regional Systems	4,284.3	3,958.1	3,586.8
<b>Total</b>	<b>16,134.1</b>	<b>14,253.6</b>	<b>12,223.7</b>

### Competition

In 2019, there were 273 municipalities operating their own water and sewage systems in the state of São Paulo, with a total population of approximately 14.7 million, or approximately 33.1% of the population of the state.

The competition for municipal concessions arises mainly from the municipalities, as they may resume the water and sewage services that were granted to us and start providing these services directly to the local population. In this case, the municipal governments would be required to indemnify us for the unamortized portion of our investment. See “—Risk Factors—Risks Relating to Our Business—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.” In the past, municipal governments have terminated our concessions agreements before the expiration date. Furthermore, municipal governments have tried to expropriate our assets in an attempt to resume the provision of water and sewage services to local populations. See “Item 8.A. Financial Statements and Other Financial Information—Legal Proceedings.” We negotiate expired concession agreements and concession agreements close to expiration with the municipalities in an attempt to maintain our existing areas of operations. In the state of São Paulo, we face competition from private and municipal water and sewage service providers.

In recent years, we have also experienced an increasing level of competition in the market of water supply, including to residential condominiums and non-residential customers. Several large industrial customers located in municipalities we serve use their own wells to meet their water needs. In addition, competition for the disposal of non-residential, commercial and industrial sludge in the São Paulo metropolitan region has increased in recent years as private companies offer stand-alone water treatment solutions inside the facilities of their customers. We have also established new tariff schedules for commercial and industrial customers in order to assist us in retaining these customers under demand or take-or-pay contracts. On December 31, 2019 we had 558 take-or-pay contracts. For more information on Take-or-pay Contracts see “—Tariff Structure—Fixed Demand Agreements (Take-or Pay).”

## **Billing Procedures**

The procedure for billing and payment of our water and sewage services is largely the same for all customer categories. Water and sewage bills are based on water usage determined by monthly water meter readings. Larger customers, however, have their meters read every 15 days to monitor consumption and thus avoid water losses resulting from leakages. Sewage billing is included as part of the water bill and is based on the water meter reading.

We monitor water meter readings by use of hand held computers and transmitters. The system allows the meter reader to input the gauge levels on the meters into the computer and automatically print the bill for the customer. The hand held computer tracks water consumption usage at each metered location and prepares bills based on actual meter readings. Part of the water meter monitoring for billing purposes is carried out by our own personnel, which are trained and supervised by us, and part of it is carried out by third party contractors that employ and train their own personnel whose training we supervise.

The majority of the bills for water and sewage services are delivered to our customers in person, mainly through independent contractors who are also responsible for reading water meters, although a proportion of clients elected, for convenience purposes, to receive their bill through regular mail. Water and sewage bills can be paid at certain banks and other locations in the state of São Paulo. These funds are paid over to us after deducting average banking fees ranging from R\$0.29 to R\$1.41 per transaction for collection and remittance of these payments. Customers must pay their water and sewage bills by the due date if they wish to avoid paying a fine. We generally charge a penalty fee and interest on late bill payments. In 2019, 2018 and 2017, we received payment of 93.7%, 93.8% and 94.1%, respectively, of the amount billed to our retail customers, and 93.7%, 93.8% and 94.1%, respectively, of the amount billed to those customers other than State entities, within 30 days after the due date. In 2019, 2018 and 2017, we received 99.6%, 99.4% and 99.2%, respectively, of the amount billed to the State entities.

With respect to wholesale supply, in 2019, 2018 and 2017, we received payment of 34.7%, 38.5% and 66.6%, respectively, of the amount billed within 30 days. The reason for the reduction in the payments received within 30 days over the last three years is due to the fact that our bills for the municipalities of Guarulhos and Santo André are no longer included as part of this calculation as we have now signed contracts with those municipalities. Prior to the signing of those contracts, they were included in this calculation as it includes court ordered payments.

## **Tariffs**

Tariff adjustments follow the guidelines established by the Basic Sanitation Law and ARSESP regulations. The guidelines also establish procedural steps and the terms for the annual adjustments. The adjustments have to be announced 30 days prior to the effective date of the new tariffs. Pursuant to the most recent tariff revision, both the base date and future adjustments take place in April. Tariffs have historically been adjusted once a year and for periods of at least 12 months. See “—Government Regulations Applicable to our Contracts—Tariff Regulation in the State of São Paulo” for additional information regarding our tariffs.

With the publication of the Basic Sanitation Law, Federal Law No. 11,445/2007, states have been required to establish independent regulators responsible for the regulation of basic sanitation services, including tariff regulation. To exercise this assignment, the State of São Paulo enacted State Supplementary Law No. 1,025/2007, that established ARSESP, which regulates and supervises the services we provide to the State and also to the municipalities that have agreed to its jurisdiction. The guidelines by which we readjust our tariffs are defined pursuant to State Decree No. 41,446/1996, which were ratified by Federal Law No. 11,445/2007 and regulated by resolutions issued by ARSESP.

In regard to municipalities that have not explicitly selected ARSESP as their regulator, the Basic Sanitation Law allows the municipality to create other regulatory agencies of their own.

In 2011, the municipalities located in the hydrographic basins of the Piracicaba, Capivari and Jundiá rivers created a consortium known as ARES/PCJ to regulate and supervise our activities in those areas. As a result of the creation of the ARES/PCJ, we were involved in legal proceedings in which ARES/PCJ is claiming that it has jurisdiction over the regulation and supervision of our activities in four municipalities (Piracaia, Mombuca, Santa Maria da Serra and Águas de São Pedro). In 2016 we obtained a definitive favorable decision in the Piracaia proceeding and in 2018, we obtained a definitive favorable decision in the Mombuca and Santa Maria da Serra proceedings. In 2019, the case involving Águas de São Pedro was dismissed, given that the municipality requested its removal from ARES/PCJ, after which the lawsuit lost its object-matter.

In November 2013 the Regulatory Agency of São Bernardo do Campo was created. However, when the contract was signed with the municipality of São Bernardo do Campo in 2019 the regulation and supervision of services were delegated to ARSESP. Furthermore, regional and municipal agencies may continue to be created and may dispute with ARSESP regarding the regulation and oversight of our services. See “Item 3.D. Risk Factor—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.”

### ***Tariff Readjustment and Revisions***

Tariff readjustment and revision are mechanisms through which tariffs may be monetarily altered. Such mechanisms are provided for in laws, contracts and regulatory standards and allow the maintenance of the economic and financial balance of the concessionaire and of the concession agreement itself.

Pursuant to Law No. 11,445/2007, revisions may be ordinary or extraordinary. The ordinary tariff review takes place every four years and aims at maintaining the economic and financial balance of service provision. This review takes into account the expectations of costs, expenses, investments and market prices in order to preserve the financial and economic balance of the concession agreement, as was the case with our tariff revision. This revision calculates the required revenue (or balance revenue), the X Factor that allows us to share productivity gains with consumers and the Q Factor, which encourages quality improvement. In addition, it is important to recognize all investments made during the “inter-cycle” period by the concessionaire, such as us, and to redefine their efficient operating costs according to the evolution of other distributors and the rate of return (WACC) according to the country’s socioeconomic scenario.

Extraordinary tariff revisions, on the other hand, may occur at any time regardless of the aforementioned readjustments and revisions if there are material changes in conditions that affect the financial and economic balance of the concession agreement.

Further to revisions, the tariffs are annually adjusted in the years between periodic tariff reviews. In our agreements, we use the IPCA price index (accumulated in 12 months), minus a productivity factor calculated in the periodic tariff review (X Factor) and, as of 2020, the adjustment of IGQ - General Quality Index that can be naught, positive or negative, according to the deviation between the established goal and the actual values.

The first ordinary tariff revision took place from April 2013 to April 2016. In 2015, due to the decline in the volume of water billed due to the water crisis and the unpredicted increase in electricity tariffs, we requested an extraordinary tariff review from ARSESP. The request was partially accepted which resulted in a tariff repositioning index of 6.92%.

The second ordinary tariff revision cycle began in April 2017 and is expected to end in April 2021. However, due to delays in the process, the revision was divided into two parts. The first part was completed on October 10, 2017 and the second part was completed in May 2018.

As part of the first part of this cycle, ARSESP authorized us to apply the tariff repositioning index of 7.8888%, effective on November 10, 2017.

On May 24, 2018, as a result of the Second Ordinary Tariff Revision, we filed: (i) an administrative appeal questioning the methodology utilized for applying the compensatory adjustment to revenue, electricity costs and investments made during the first tariff cycle; (ii) a request for clarification of the reasons leading to a significant reduction in OPEX projections for the period 2017-2020; (iii) a request to review estimates for the X Factor calculations of the compensatory adjustment for the delay in the application of the Second Ordinary Tariff Review; and (iv) a request to review the calculation of the financial component related to municipal funds, in respect of our contract with the municipality of São Paulo.

On February 28, 2019, ARSESP published the result of the applications filed on May 24, 2018. With regard to the administrative appeal, ARSESP decided not to accept its merits. Regarding the request for clarification and estimate review; ARSESP partially accepted our arguments and determined: (i) the correction of the X Factor, reducing it from 0.8885% to 0.6920%; and (ii) to apply a compensatory adjustment of 0.8408% to the upcoming tariff adjustment to cover: (a) the delay in the application of the Tariff Revision in the second cycle, specifically related to the capitalization of revenue differences after June 2018; and (b) an adjustment in the reference price dates adopted in the OPEX calculation, from December 2017 to April 2017. The final results of an index of 0.8408%, applied at the same time as the annual tariff adjustment in May 2019.

On April 10, 2019, ARSESP issued Resolution No. 859/2019 which authorizes us to implement a tariff readjustment of 4.7242% to the current tariffs, consisting of: (i) IPCA variation in the period of 4.5754%; (ii) efficiency factor (X Factor) of 0.6920%; and (iii) Compensatory adjustment of 0.8408%. This tariff readjustment was applied as from May 11, 2019.

On April 1, 2020, ARSESP issued Resolution No. 974/2020 setting out the schedule of stages for our Third Ordinary Tariff Revision, as set out in the table below:

Stage	Description	Period
1	Presentation of historical data by us	05/14/2020
2	Publication of the 3rd Ordinary Tariff Revision methodology proposal	05/14/2020
3	Publication of Weighted Average Cost of Capital (WACC)	05/14/2020
4	Public Consultation and Public Hearing - Methodology of the 3rd Ordinary Tariff Revision	05/15/2020 to 07/03/2020
5	Public Consultation and Public Hearing – WACC	05/15/2020 to 07/03/2020
6	Release of Detailed Report and Final Technical Note of the methodology	07/30/2020
7	Release of WACC Detailed Report and Final Technical Note	07/30/2020
8	Receivment of our Business Plan	10/05/2020
9	Release of Preliminary Technical Note - Calculation of P0	01/14/2021
10	Public Consultation and Public Hearing - Calculation of P0	01/15/2021 to 02/19/2021
11	Release of the Detailed Report, Final Technical Note and P0 Resolution	04/09/2021

However, due to the COVID-19 pandemic, the deadlines for some of the stages set out above might suffer delays.

On April 9, 2020, ARSESP issued Resolution No. 980/2020 publishing a tariff readjustment of 2.4924%, consisting of: (i) IPCA variation during the period of 3.3032%; (ii) efficiency factor (X Factor) of 0.6920%; and (iii) Quality Fator (Q Factor) of -0.1188%. Due to the state of public calamity resulting from the COVID-19 pandemic, ARSESP postponed this readjustment for 90 days. The main provisions of the Resolution No. 980/2020 are set out below:

- To postpone the publication of the new tariff tables, resulting from the annual tariff adjustment to June 10, 2020;
- That the adjusted tariff tables will be published by June 10, 2020 and will be applied as of thirty days from their publication, pursuant to Law No. 11,445/2007;
- That the compensatory adjustments for the postponement of the application of the annual tariff adjustment will be calculated until June 10, 2020; and
- That the amount to be compensated will be distributed in the tariffs in the period between July 10, 2020 and May 10, 2021, when the results of the Third Ordinary Tariff Revision will be applied.

Further on April 9, 2020, ARSESP issued Resolution No. 979/2020, informing that it will evaluate the economic-financial balance of the provision of services in order to restore it in due course, if necessary, as a result of the impact of the exemption of payment of water and sewage bills for consumers in the “Residential Social” and “Residential Favela” categories for bills issued from April 1, 2020 for 90 days and will cover all municipalities operated by us.



On April 17, 2020 ARSESP published Resolutions No. 985/2020 and No. 991/2020 on the topic reduced revenues in the short term resulting from the COVID-19 pandemic. Resolution No. 985/2020 suspends, on an exceptional and transitory basis, from May to December 2020, the payment of the TRCF - Regulation, Control and Inspection Fee, paid by us. During this period, the payment we transfer to ARSESP will decrease from 0.50% to 0.25% of annual revenues. The postponed transfers will be monetarily adjusted and paid in 24 equal monthly installments starting in January 2021.

Resolution No. 991/2020 provides for the postponement of the implementation of the Four-year Research and Technological Development Program for Innovation in Sanitation Services scheduled for May 2020 to May 2021. The value of the Authorized Amount of financial resources for the year 2020 (2017-2020 Cycle), inflation-adjusted by the accumulated IPCA of 2020, will integrate the calculation of the Authorized Amount to be invested in 2021 and 2022.

### *Regulatory Agenda*

On January 31, 2019, ARSESP published a 2019-2020 Regulatory Agenda in order to ensure transparency and participation by the society in the regulatory process of the Third Ordinary Tariff Revision.

As of the date of this annual report, the following matters of this regulatory agenda have been evaluated or are under discussion through consultation and public hearing:

(a) On February 8, 2019, ARSESP published Public Consultation No. 02/2019, which aimed to obtain contributions regarding the Regulatory Criteria for the recognition of the tariffs for the transfers to municipal funds for environmental sanitation and infrastructure. On May 13 2019, ARSESP published: (i) Resolution No. 870/2019, which establishes criteria and conditions to recognize in the tariff the transfer of part of the direct revenue of the service providers, regulated by ARSESP to the municipal funds for basic sanitation; and (ii) a detailed report with an analysis and clarification on the contributions received through public consultation related to the regulation of these transfers. Within the scope of the Second Ordinary Tariff Review, the regulatory limit of 4% of the municipality’s operating revenue was set to pass on tariffs and if the concessionaire and the municipality decide to transfer amounts greater than 4% of the revenue, the surplus will not be recognized as a financial component in the tariffs and will be restricted to the municipality. In addition, for tariff recognition, the municipal funds for environmental sanitation and infrastructure shall be established by the service holder by an act of law, which shall specify the destination of the funds.

(b) On June 6, 2019, ARSESP published Public Consultation No. 06/2019, which aimed at discussing the methodology for calculating and application of the General Quality Index (Q Factor) in our tariff readjustment and revision processes, with positive or negative tariff effect in our annual adjustments. The table below indicates the primary targets proposed by the ARSESP for the 2020 tariff adjustment, and accepted by us, for the four indicators that make up the Q Factor, as approved in Resolution No. 898/2019:

<b>Indicator</b>	<b>2019 Targets</b>
ILFE <sup>(1)</sup> (%)	1.12
IDRP <sup>(2)</sup> (%)	13.68
IRFA <sup>(3)</sup> (complaints/1,000 connections)	28.19
IVV <sup>(4)</sup> (visible leakage/network extension)	7.02

- (1) ILFE – Index of feasible sewage connections;
- (2) IDRP – Pavement replacement non-compliance index;
- (3) IRFA – Customers complaints index related to lack of water and low pressure;
- (4) IVV – Visible leakage index per network extension.

On April 9, 2020, ARSESP issued Resolution No. 980/2020, publishing a tariff readjustment of 2.4924%. Due to the state of public calamity as a result of the COVID-19 pandemic, ARSESP postponed this readjustment for 90 days. The effect of the Quality Factor (Q Factor) was -0.1188%.

(c) On July 17, 2019 ARSESP published Public Consultation No. 09/2019, which aimed at obtaining contributions regarding the methodology and general criteria for updating our Regulatory Asset Base as part of the Third Ordinary Tariff Review (OTR). As approved in Resolution No. 941/2019, the incremental assets added by us in the period from July 2016 to June 2019 will be evaluated using the Original Book Value method and for the new municipalities added by us during the cycle the assets will be evaluated by the New Replacement Value method.

(d) On September 2, 2019 ARSESP published the Public Consultation Notice No. 10/2019, which aimed to: (i) establish the Quadrennial Research and Technological Development Program for Innovation in Basic Sanitation Services regulated by ARSESP, to regulate the application of the 0.05% revenue required in Research and Technological Development projects, as defined in 2018 (the “PD&I Program”); and (ii) approve the Elaboration and Evaluation Manual of the Quadrennial Research and Technological Development Program for Innovation in Basic Sanitation Services regulated by ARSESP. These documents were approved in Resolution No. 920/2019 and we are required to file a portfolio of PD&I Program projects for analysis and prioritization by ARSESP. The Quadrennial Program was scheduled to produce tariff effect in 2020 annual adjustment. However, taking the scenario of reduced revenues in the short term resulting from the COVID-19 pandemic into account, ARSESP published Resolution No. 991/2020 which suspended the implementation of the Four-year Research and Technological Development Program for Innovation in Sanitation Services scheduled for May 2020. See “—Tariff Readjustment and Revisions.”

(e) On February 10, 2020, ARSESP published the Public Consultation Notice No. 02/2020, which aimed at obtaining contributions regarding the proposed 2020-2021 ARSESP Regulatory Agenda. On April 14, 2020, ARSESP disclosed the Detailed Report and Resolution No. 981/2020, related to the Public Consultation No. 02/2020, which establishes the 2020-2021 Regulatory Agenda.

Due to the economic impact caused by COVID-19, in March 2020 our Board of Directors approved an exemption for customers registered as of March 19, 2020 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. 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.”

### **Tariff Structure**

Our current tariff structure is based on the tariff regulation approved by State Decree No. 41,446/1996, and is divided into two categories: residential and non-residential. The residential category is subdivided into standard residential, residential-social and shantytown (*favela*). The residential-social tariffs apply to residences of low-income families, residences of persons unemployed for up to 12 months and collective living residences. The *favela* tariffs apply to residences in shantytowns characterized by a lack of urban infrastructure. The latter two sub-categories were instituted to assist lower-income customers by providing lower tariffs for consumption. The non-residential category consists of: (i) commercial, industrial and public customers; (ii) non-profit entities that pay 50.0% of the prevailing non-residential tariff; (iii) government entities that adhere to the Rational Use of Water Program (*Programa de Uso Racional da Água – PURA*) pay 75.0% of the prevailing non-residential tariff; and (iv) public entities that have entered into program agreements, for municipalities with a population of up to 30.0 thousand and with half or more classified according to their degree of social vulnerability by the Social Vulnerability Index of São Paulo (*Índice Paulista de Vulnerabilidade Social*) 5 and 6, of the SEADE, obtained through the analysis of the 2000 Census figures, and start to receive tariff benefits, in accordance with our normative ruling, for the category of public use, at the municipality level. The tariffs are equal to those offered to the commercial/entity of social assistance and that corresponds to 50.0% of the public tariffs without contractual provisions referred to in item (iv) above.

There are tables with the values due for each consumption band for the abovementioned categories: up to 10 m<sup>3</sup>, from 11 to 20 m<sup>3</sup>, from 21 to 50 m<sup>3</sup> and above 50 m<sup>3</sup>. The “Residential Social” and “Residential Favela” categories have five consumption bands: up to 10 m<sup>3</sup>, from 11 to 20 m<sup>3</sup>, from 21 to 30 m<sup>3</sup>, 31 to 50 m<sup>3</sup> and above 50 m<sup>3</sup>. The amount charged is always progressive.

Large consumers and municipalities served by wholesale have separate tariff tables.

In January 2020, ARSESP enacted Resolution No. 951/2020, ratified by the Regulatory Agenda 2020-2021, which established regulatory guidelines and the schedule for the new tariff structure, which will be completed in December 2020.

#### *Fixed Demand Agreements (Take-or-Pay)*

We established a new tariff schedule, effective May 2002, for commercial and industrial customers that consume at least 5 thousand cubic meters of water per month and that enter into fixed demand agreements (take-or-pay) with us for at least one-year terms, with the aim of retaining these industrial and commercial customers. In October 2007, the minimum volume for entering into these agreements was reduced from 5 thousand cubic meters per month to 3 thousand cubic meters per month. We believe this tariff schedule will help prevent our commercial and industrial customers from switching to the use of private wells. Since 2008, we have been authorized by ARSESP to establish tariffs for non-residential customers, such as industrial and commercial customers, that consume more than 3 thousand cubic meters per month, with a maximum tariff equal to the tariffs applicable to non-residential customers that consume more than 50 cubic meters per month. In 2010, ARSESP authorized a reduction in the minimum volume of consumption for customers that enter into fixed demand agreements with us to a minimum of 500 cubic meters per month.

In May 2016, we reinitiated the fixed demand requirement, and the volumes of those contracts were revised according to clients’ new consumption profiles. On December 31, 2019 we had 558 contracts. For more information about the water crisis, see “—The 2014-2015 Water Crisis.”

On November 2, 2018, ARSESP published Resolution No. 818/2018 which provides the criteria for the execution and inspection of contracts for the supply of water and sewage services for large users of non-residential use categories, governing the conclusion of new contracts and adjusting existing contracts to the new rules.

The ARSESP Resolution No. 818/2018 consolidates all the regulatory guidelines for the execution of contracts with large users, as well as establishing a system for the homologation of standard contracts setting out the transition rules for contracts already in force and determines the minimum and maximum limits for the fees that may be charged. Additionally, this resolution allows ARSESP to amend such contracts, in case of a restriction of the water supply, and require mandatory disclosure of the contracts, as well as the results of their inspections, on the website of the provider.

#### *Water and sewage services tariffs*

We establish separate tariff schedules for our services in each of the São Paulo metropolitan regions and each of the interior region of São Paulo State and coastal regions which comprise our Regional Systems, depending upon whether a customer is located in the São Paulo metropolitan region or the Regional Systems. Each tariff schedule incorporates regional cross-subsidies, taking into account the customers' type and volume of consumption. Tariffs paid by customers with high monthly water consumption rates exceed our costs of providing water service. We use the excess tariff billed to high-volume customers to compensate for the lower tariffs paid by low-volume customers. Similarly, tariffs for non-residential customers are established at levels that subsidize residential customers. In addition, the tariffs for the São Paulo metropolitan region generally are higher than tariffs in the interior region of São Paulo State and coastal regions. In 2019, 2018 and 2017, the average tariff calculated for the Regional Systems was approximately 22% below the average tariff of the São Paulo metropolitan region. Considering the current tariff structure we expect approximately 22% for 2020.

Sewage charges in each region are fixed and are based on the same volume of water charged. In the São Paulo metropolitan region and the coastal region, the sewage tariffs are equal to the water tariffs. In the majority of the municipalities of the interior region of the State of São Paulo, sewage tariffs are approximately 20.0% lower than water tariffs. Wholesale water rates are the same for all municipalities served. We also make available sewage treatment services to those municipalities in line with the applicable contracts and tariffs. In addition, various industrial customers pay an additional sewage charge, depending on the characteristics of the sewage they produce. Each category and class of customer pays tariffs according to the volume of water consumed. The tariff paid by a certain category and class of customer increases progressively according to the increase in the volume of water consumed. The first category (0-10) corresponds to the minimum fee that is charged to our customers for the consumption of water. The following table sets forth the water and sewage services tariffs by (i) customer category and class; and (ii) volume of water consumed, charged in cubic meters during the years and period stated in the São Paulo metropolitan region:

Customer Category Consumption	As of May 11,	As of June 9,	As of Nov 10,
	2019	2018	2017
			<i>(reais per m<sup>3</sup>)</i>
<b>Residential</b>			
Standard Residential:			
0-10 <sup>(1)</sup>	2.62	2.50	2.42
11-20	4.10	3.91	3.78
21-50	10.23	9.77	9.44
Above 50	11.27	10.76	10.40
<b>Social:</b>			
0-10 <sup>(1)</sup>	0.89	0.85	0.82
11-20	1.53	1.46	1.41
21-30	5.43	5.19	5.01
31-50	7.74	7.39	7.14
Above 50	8.55	8.17	7.89
<b>Shantytown (favela):</b>			
0-10 <sup>(1)</sup>	0.68	0.65	0.63
11-20	0.77	0.73	0.71
21-30	2.56	2.44	2.36
31-50	7.74	7.39	7.14
Above 50	8.55	8.17	7.89
<b>Non-Residential</b>			
Commercial/Industrial/Governmental:			
0-10 <sup>(1)</sup>	5.26	50.20	4.85
11-20	10.23	9.77	9.44
21-50	19.60	18.71	18.08
Above 50	20.42	19.50	18.84
<b>Social Welfare Entities:</b>			
0-10 <sup>(1)</sup>	2.63	2.51	2.42
11-20	5.11	4.88	4.71
21-50	9.84	9.40	9.08
Above 50	10.22	9.76	9.43
Government entities that employ the Rational Use of Water Program ( <i>Programa de Uso Racional da Água – PURA</i> ), with reduction agreement:			
0-10 <sup>(1)</sup>	3.94	3.76	3.63
11-20	7.66	7.32	7.07
21-50	14.74	14.08	13.60
Above 50	15.32	14.63	14.13

<sup>(1)</sup> The minimum volume charged is for ten cubic meters per month.

On April 11, 2016, ARSESP issued Resolution No. 643/2016, which authorizes us to implement an 8.4478% tariff adjustment to our current tariffs, effective on May 12, 2016.

On October 10, 2017, ARSESP issued Resolution No. 753/2017, which authorizes us to implement a 7.8888% repositioning index to our current tariffs, effective on November 10, 2017.

On November 10, 2017, we started to charge our customers the Regulatory, Control and Inspection Fee (*Taxa de Regulação, Controle e Fiscalização*, or TRCF) by including a 0.5% fee in customer bills in the municipalities regulated by ARSESP, pursuant to Paragraph 2 of Article 2 of ARSESP Resolution No. 406/2013. This fee was initially established by the State Supplementary Law No. 1.025/2007.

On May 9, 2018, ARSESP issued Resolution No. 794/2018, which authorizes us to implement a 3.5070% repositioning index to our current tariffs, effective on June 9, 2018.

On April 10, 2019, ARSESP issued Resolution No. 859/2019 which authorizes us to implement a tariff readjustment of 4.7242% to the current tariffs, which consists of: (i) IPCA variation in the effective period of 4.5754%; and (ii) efficiency factor (X Factor) of 0.6920%; and (iii) Compensatory adjustment of 0.8408%. This tariff readjustment was effective as from May 11, 2019.

On April 9, 2020, ARSESP issued Resolution No. 980/2020 publishing a tariff readjustment of 2.4924%, consisting of: (i) IPCA variation in the period of 3.3032%; (ii) efficiency factor (X Factor) of 0.6920%; and (iii) Quality factor (Q Factor) of -0.1188%. Due to the state of public calamity resulting from the COVID-19 pandemic, ARSESP decided to postpone it for 90 days. See “—Tariff Readjustment and Revisions.”

### **Other ARSESP Regulations**

In 2009, ARSESP enacted rules regarding the following: (i) general terms and conditions for water and sewage services; (ii) procedures for communication regarding any failure in our services; (iii) penalties for deficiencies in the provision of basic sanitation services; and (iv) procedures for confidential treatment of our customers' private information. The implementation of these and other more recent rules will particularly impact our commercial and operational processes, and may adversely affect us in ways we cannot currently predict. Implementation of these rules started in 2011 and is expected to continue for the next few years.

In 2011, ARSESP altered the standard contract that we are required to use in our relationships with retail customers. This alteration requires that invoices be sent to the user of the service rather than the owner of the property. Currently, more than 90% of our water and sewage connections are billed to the user of our services, as foreseen under current regulations. Related to the collection of debt, we are also faced with the challenge of collecting customers' taxpayer identification numbers, which are required to register for our services and are needed for the judicial collection of outstanding fees in the event of nonpayment. We continuously update our customers' registration information, but we face difficulties in updating this information in areas with high concentrations of social vulnerability and noncompliance.

In August 2012, ARSESP issued Resolution No. 346/2012, which established that users should be compensated for any interruptions in water supply. However, this regulation has been suspended until the date of this annual report.

### **Government Regulations Applicable to our Contracts**

Basic sanitation services in Brazil are subject to extensive federal, state and local legislation and regulation that, among other matters, regulates:

- the development of public-private partnerships, or PPPs;

- the need of a public bidding process for the appointment of water and sewage services providers via concession agreements;
- the need of setting up an agreement for the appointment of public water and sewage services providers;
- the joint management of public services through cooperation agreements, allowing for a program agreement without the need for a public bidding process for the service provider;
- the planning, regulation and inspection of basic sanitation services prohibited by service providers;
- minimum requirements for water and sewage services;
- water usage;
- water quality and environmental protection; and
- governmental restrictions on the incurrence of debt applicable to state-controlled companies.

## **PLANASA**

Until 1970, Brazil's sanitation sector mainly consisted of small-scale projects, the absence of a standardized tariff system and shortage of financial, human and technical resources.

The National Plan of Basic Sanitation (*Plano Nacional de Saneamento Básico*), or "PLANASA" was created in 1971, aiming to provide universal access to sanitation services in urban areas and to establish an adequate tariff policy, among other things. Afterwards, SABESP was created under State Law No. 119/1973 as a mixed capital company to provide basic sanitation services in the state of São Paulo while also acknowledging the autonomy of the municipalities within the State.

Pursuant to the Brazilian Constitution, the authority to develop and provide public water and sewage services are the joint responsibility of the federal government, the states and the municipalities. Article 216 of the Constitution of the State of São Paulo establishes that the State must provide the conditions for the efficient management and adequate expansion of water and sewage services rendered by its agencies and State-controlled companies or any other concessionaire under its control.

Pursuant to Article 175 of the Brazilian Constitution, the rendering of public services, such as water and sewage services, is the responsibility of the applicable public authority. However, any such public authority has the right to render these services directly or through a concession granted to a third party after a bidding process.

Additionally, Article 241 of the Brazilian Constitution establishes the legal regime for managing the rendering of public services among different federal, state and municipal government entities, including the total or partial transfer among these entities of fees, services, personnel and essential goods needed to render such public services. For example, such service can be rendered through a public consortium or a cooperation agreement under Federal Law No. 11,107 of April 6, 2005, also known as the Law on Public Consortia and Cooperation Agreements (*Lei de Consórcios Públicos e Convênio de Cooperação*), which, in turn, created a program contract which allowed for the waiver of the bidding process for companies like ours.

PLANASA was the first attempt to outline long-term universalization targets for water and sewage services, but it was discontinued in 1986.

## ***The Basic Sanitation Law***

Until 2007, the sanitation sector was predominantly self-regulated by the service providers and tariffs were determined by direct negotiation between state and municipal governments and companies.

The Basic Sanitation Law No. 11,445/2007 went into effect on January 5, 2007, effectively revoking and substituting the PLANASA model, establishing nationwide guidelines for basic sanitation and seeking to create the appropriate solutions for the provision of basic sanitation considering the particular conditions in each state and municipality. The Basic Sanitation Law also sought to facilitate the cooperation between the state and municipalities in the rendering of public services.

The Basic Sanitation Law establishes the following guiding principles for the public service of basic sanitation: universalization, integrality, efficiency and economic sustainability, transparency of actions, social control and integration of infrastructure and services with the management of water resources. It does not define the ownership of the sanitation services, but establishes certain minimum liability thresholds, such as the development of local and regional sanitation plans, the need to create norms for the regulation and supervision of services, the creation of the entities responsible for such regulation and establishment of the rights and obligations of the users and of social control mechanisms, in addition to the principles listed below:

- for public-private partnership contracts (or program contracts), public hearings must be held with respect to bid announcements;
- the carrying out of technical and financial feasibility studies;
- the holding of public hearings regarding concession bidding notices and contract drafts;
- the rights and obligations of customers and service providers, including penalties, are determined by the owner of the public service, not by the regulatory agency (since its function is to ensure full compliance of legislative and contractual conditions);
- the regulatory agency's function is to ensure compliance with the law and with the contractual conditions;
- the technical and financial viability of the provision of water and sewage services;
- the interruption of the provision of sanitation services by the service provider in the event of a default of payment of the tariffs by the customer, among other reasons, provided that minimum conditions for maintaining health are assured;
- when parts of a regulated service are to be provided by different service providers, those providers must execute an agreement regulating their respective activities;
- the definition of principles and guidelines which must be respected when securing public funds generated or operated by agencies or entities of the federal government;
- the possibility of using subsidies as an instrument of social policy in order to ensure access to basic sanitation services to everyone, particularly for low-income families; and
- the obligation to adopt environmental criteria that include, among other measures, individual management of water consumption per habitation unit.

By establishing the principles listed above, the Basic Sanitation Law defines the laws and regulations under which a water and basic sanitation provider may provide its services to several regions controlled by different owners (*i.e.*, one single provider serves two or more owners, for which there may be one plan for the combination of services).

The rules for implementation of the new principles and directives set forth in Federal Law No. 11,445/2007 are established by Federal Decree No. 7,217/2010, dated June 21, 2010 (as modified, among others, by Federal Decree No. 10,203/2020), which 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 addition, the Basic Sanitation Law defines the rules for the delegation of the regulation, control and monitoring of sanitation services by the states and municipalities to contracted parties and the conditions for any such provision of public services. The Basic Sanitation Law also significantly amends Article 42 of the Federal Concessions Law No. 8,987/1995, which establishes the administrative proceedings necessary for the termination of concessions prior to the expiration date and the reversibility conditions for unamortized investments that create assets upon the termination of a concession. The amendment to Article 42 establishes that when a concession is terminated prior to its expiration date, the service provider must be indemnified for unamortized investments that create assets, preferably through an amicable settlement between the parties defining the criteria for the calculation and payments of indemnity.

Furthermore, the Basic Sanitation Law also provides that the provision of sanitation services may be interrupted by the service provider, in the event of a default of payment of the tariffs by the customer, among other reasons. The provision of sanitation services may only be interrupted after a written notice, and as long as minimum health requirements are met.

The Basic Sanitation Law defines the criteria for the reversal of assets at the time of termination of the water and sewage public service contract, which term also encompasses concession agreements such as those that have expired or are effective for an indefinite term, or those that were not formalized by an agreement. In addition, the Basic Sanitation Law provides the criteria for calculating the amount of an indemnity due, which may be calculated by a specialized institution chosen by mutual agreement between the parties in a formal payment agreement.

Pursuant to the Basic Sanitation Law, the parties involved in a concession may enter into an agreement with respect to the payment of the indemnification due to the concessionaire. However, in the absence of an agreement, the Basic Sanitation Law establishes that the indemnification must be paid in no more than four equal and successive annual installments, with the first installment payable by the last business day of the fiscal year in which the assets are reversed. The provision of public services will remain valid until the conclusion of any administrative measures undertaken by the entity responsible for such services.

According to the Basic Sanitation Law, the existing concession or water and sewage public service contract will remain in effect until the responsible public entity concludes the administrative proceedings necessary for termination.

The Basic Sanitation Law provides that our new water and sewage public service contracts must be planned, supervised and regulated by the municipalities together with the State under a new model of associated management that will allow for better control, supervision, transparency and efficiency in the provision of public services.

#### ***National Plan for Basic Sanitation (PLANSAB)***

The National Plan for Basic Sanitation (PLANSAB) is an instrument of the public sanitation project established by the Basic Sanitation Law, with an expected duration of 20 years. The plan contains a diagnosis of Brazil's basic sanitation infrastructure divided into four segments: (i) coverage deficits, (ii) a government program, (iii) investments made and (iv) political and institutional aspects. The program also provides estimates for investments to achieve coverage targets.

Short, medium and long-term objectives were prepared for 2018, 2023 and 2033, respectively, based on the historical evolution and current water and sewage infrastructure.

Ever since (i) the issuance of Provisional Measure No. 844/2018 in July 2018 (which expired in November 2018 without being converted into law) and (ii) the issuance of Provisional Measure No. 868/2018, on December 28, 2018 (which expired in June 2019 without being converted into law), there have been efforts by both the Executive and Legislative powers to amend the Basic Sanitation Law No. 11,445/2007 and Law No. 9,984/2000, which will attribute the National Water Agency the capacity to establish national reference rules on sanitation services and exclude the possibility of contracting new program agreements, among other relevant changes to the sector. In December 2019, Bill No. 3,261/2019 was submitted before the Chamber of Deputies. In the same month of 2019, the Chamber of Deputies approved Bill No. 4,162/2019, which replaced Bill No. 3,261/2019, and submitted it for approval by the Senate. The amendment of the Basic Sanitation Law could have a material adverse effect on our business, results of operations and financial condition. See "Item 3.D. Risk Factor—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."

#### ***Contracts for the Provision of Essential Basic Sanitation Services in Brazil***

In Brazil, there are three federal legal regimes for contracting water and sewage services: (i) public concessions, regulated by Law No. 8,987/1995, which require a prior public bidding process; (ii) administration of public services through cooperation agreements between the federal government and local public authorities at State and municipal level without the need for a public bidding process, regulated by the Public Consortia and Cooperation Agreement Law No. 11,107/2005; and (iii) PPPs regulated by Law No. 11,079/2004, used to grant concessions to private companies to provide public services and used in relation to construction works associated with the provision of public services.

The Federal Concessions Law No. 8,987/1995 and the State Concessions Law No. 7,835/1992 require that the granting of a concession by the government be preceded by a public bidding process. However, the Federal Public Bidding Law No. 8,666/1993, which establishes the rules for the public bidding process, provides that a public bidding process can be waived under certain circumstances, including in the case of services to be provided by a public entity created for such specific purpose on a date prior to the effectiveness of this law, provided that the contracted price is compatible with what is practiced in the market. Furthermore, a provision of the Federal Public Bidding Law, as amended by the Public Consortia and Cooperation Agreement Law, provides that the program agreement can be executed with waiver of a public bidding process.

The Constitution of the State of São Paulo provides that the State shall ensure the adequate provision and efficient administration of water and sewage services in the state territory by a company under its control, such as our company.

#### ***Our Concession Agreements***

From 1998 to 2005, our contracts with municipalities have been regulated by the Federal Concessions Law No. 8,987/1995. Generally, these contracts have a 30-year term, and the total value of the concession is set by the discounted cash flow method. Under this method, when the expected contractual cash flow is reached, the total value of the concession and assets is amortized to zero on our books and we receive no payment for the assets. If the concession is terminated prior to the end of the 30-year term, thereby interrupting the normal contractual cash flow, we are paid an amount equal to the present value of the expected cash flow over the years remaining in the concession, adjusted for inflation.

Concessions for providing water and sewage services are formalized by agreements executed between the state or municipality, as the case may be, and a concessionaire to which the performance of these services is granted in a given municipality or region. Our concessions normally have a contractual term of up to 30 years. However, our concessions in general can be revoked unilaterally at any time if certain standards of quality and safety are not met, in the event of default of the terms of the concession agreement, or due to changes in public interest since the concession was granted.

A municipality that chooses to assume the direct control of its water and sewage services must terminate the current relationship by duly compensating the service provider and the investments unamortized. Subsequently, the municipality will be in charge of rendering services or of conducting a public bidding process to grant the concession to potential concessionaires, including agreements with public companies directly. The Basic Sanitation Law reduced the maximum time period for payment of indemnification in such cases to four years. See “Item 3.D. Risk Factors—Risks Relating to Our Business—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.”

### ***Program Agreements***

On April 6, 2005, the federal government enacted Federal Law No. 11,107/2005, or the Federal Public Consortia and Cooperation Agreement Law, which regulates Article 241 of the Brazilian Constitution. This statute provides general principles to be observed when a public consortium enters into contracts with the Brazilian federal government, state governments, the Federal District and municipalities, regulating the joint management of public services.

Federal Law No. 11,107/2005 introduces significant changes in the relationship among municipalities, states and companies providing public sanitation services, prohibiting the latter from exercising the activities of planning, oversight and regulation, including tariff regulation, of the services. The law also created the program agreement, a contract to be followed when Brazilian states and municipalities enter into agreements for the provision of public services with mixed capital companies. The program agreement provides the guidelines for the joint management of public services by Brazilian states and municipalities with mixed capital companies. Furthermore, this agreement allows states and municipalities to waive the public bidding process and still be in compliance with concession legislation when entering into contracts with entities that are owned by the Brazilian states or municipalities.

Federal Decree No. 6,017/2007 details the conditions for the establishment of joint management entities and the execution of the program agreement regulating the Public Consortia and Cooperation Agreement Law.

Pursuant to the Brazilian Constitution, in metropolitan regions, urban conurbations and microregions, the authority to develop public water and sewage systems is shared by the states and municipalities. However, for municipalities which are not a part of the types of regions cited above (metropolitan regions, urban conurbations and microregions), the primary responsibility for providing water and sewage services to residents rests with the municipality.

The Constitution of the State of São Paulo provides that the State shall assure the correct operation, necessary expansion and efficient administration of water and sewage services in the state of São Paulo by a company under its control. On January 13, 2006, the Governor of the State of São Paulo enacted State Decree No. 50,470/2006, amended by State Decrees No. 52,020/2007, dated July 30, 2007, and No. 53,192/2008, dated July 1, 2008, which regulate the provision of water and sewage services in the State of São Paulo. Pursuant to these decrees, we may enter into agreements with municipalities in connection with the provision of water and sewage services by means of a “program agreement without a public bidding process.” In addition, these decrees established that we will continue to render services in the areas covered by the concession granted by the State. Following the entry into force of the Public Consortia and Cooperation Agreements Law, we adopted the administration of public services through cooperation agreements and program agreement which can be used simultaneously.

### ***Public-Private Partnerships***

Public-Private Partnerships, or “PPPs,” are long-term contracts between private parties and government entities, for providing a public asset or service, in which the private parties bears significant risk and management responsibility, and remuneration is linked to performance. PPPs are regulated by the State of São Paulo through Law No. 11,688/2004, which was enacted on May 19, 2004. PPPs may be used for: (i) implantation, expansion, improvement, reform, maintenance or management of public infrastructure; (ii) provision of public services; and (iii) exploitation of public assets and non-material rights belonging to the State.

Payment is conditioned upon performance. The payment may be collected through: (i) tariffs paid by users; (ii) use of resources from the budget; (iii) assignment of credits belonging to the State; (iv) transfer of rights related to the commercial exploitation of public assets; (v) transfer of real property and other property of assets; (vi) public debts securities; and (vii) other revenues.



We do not currently provide any basic sanitation services to municipalities through PPPs.

### ***Agreements with Municipalities and Metropolitan Regions***

The state of São Paulo, pursuant to Article No. 25, Paragraph 3 of the Brazilian Constitution, enacted the State Supplementary Law, or “LCE,” to create the metropolitan regions of São Paulo (LCE No. 94/1974), Baixada Santista (LCE No. 815/1996), Campinas (LCE No. 870/2000), Vale do Paraíba and Litoral Norte (LCE No. 1,166/2012), Sorocaba No. (LCE No. 1,241/2014) and Ribeirão Preto (LCE 1,290/2016), and the urban clusters of Jundiaí (LCE No. 1,146/2011), Piracicaba (LCE No. 1,178/2012) and Franca (LCE No. 1,323/2018).

Pursuant to the Brazilian Constitution, in metropolitan regions, urban conurbations and microregions, the authority to develop public water and sewage systems is shared by the states and municipalities. However, for municipalities which are not a part of the types of regions cited above (metropolitan regions, urban conurbations and microregions), the primary responsibility for providing water and sewage services to residents rests with the municipality.

We provide basic sanitation services for municipalities, urban conurbations and metropolitan regions. In these municipalities, operations are regionalized and contracts are structured considering the financial and economic conditions of the entire region. The regulation including taxes, control and oversight are the responsibilities of ARSESP (State Supplementary Law 1,025/2007 – Articles No. 6 and No. 10). With regard to local operations, the municipalities are responsible for providing basic sanitation services. Thus, we operate through new contracts executed pursuant to a legal waiver of public tender under cooperation agreements between the state and municipalities which permit sharing the management of basic sanitation services. With regard to metropolitan regions, we conduct our operations based on state legislation and contracts and make a note of any pending litigation addressing the delineation of responsibilities regarding basic sanitation services in municipalities, metropolitan regions, urban conurbations and microregions.

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, whose effects may impact other ongoing legal proceedings. 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.

However, this decision is not yet fully effective, and, therefore, does not yet alter the legislative framework regarding basic sanitation that is currently in effect for the State of São Paulo.

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 within the term of five years, counted from the date of the institution of the metropolitan region or urban cluster: (i) the general guidelines for the planning, management and performance of public initiatives in metropolitan regions and in urban clusters instituted by the states; (ii) the general planning standards for integrated urban development and other intergovernmental 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 intergovernmental 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.

### ***Establishment of ARSESP***

On June 8, 2006, the State of São Paulo enacted Decree No. 50,868/2006, creating the Commission for the Regulation of Sanitation Service of the State of São Paulo (*Comissão de Regulação do Serviço de Saneamento do Estado de São Paulo*), or “CORSANPA,” to regulate basic sanitation services. CORSANPA was directly subordinated to the State Secretariat for Infrastructure and Environment. The main duty of CORSANPA was conducting studies for the creation of a regulatory agency for the basic sanitation industry and the presentation of legal and regulatory measures.

The completion of such duties resulted in the publication of State Supplementary Law No. 1,025/2007 of December 7, 2007, which created the São Paulo State Sanitation and Energy Regulatory Agency (*Agência Reguladora de Saneamento e Energia do Estado de São Paulo*), or “ARSESP,” and partially revoked Supplementary Law No. 7,750/1992. Furthermore, Supplementary Law No. 1,025/2007 maintained CONESAN, as an advisory council to define and implement the state basic sanitation policy, and the State Sanitation Fund (*Fundo Estadual de Saneamento*) or “FESAN.” FESAN is connected to the State Secretariat for Infrastructure and Environment and collects and manages resources that support State-approved programs, as well as the development of technology, management and human resources and a sanitation information system, in addition to other support programs.

On August 5, 2009, the State of São Paulo enacted Decree No. 54,644/2009, which revoked Decree No. 50,868/2006 and regulated the composition, organization and operation of the State Sanitation Council (*Conselho Estadual de Saneamento*), or “CONESAN” created by Supplementary Law No. 7,750/1992.

In connection with the scope of our services, Supplementary Law No. 1,025/2007 expanded the range of services that we can render, with the inclusion of urban rainwater drainage and management, urban cleaning and solid waste management, as well as the operation of power generation, storage, conservation and sales activities, for our own or third-party use.

In addition, the rules simplified the process for the expansion of our business in Brazil and abroad, authorizing us to:

- participate in the controlling block or the capital of other companies;
- create subsidiaries, which may become majority or minority shareholders in other companies; and
- establish partnerships with national or foreign companies, including other state or municipal basic sanitation companies, in order to expand our activities, share technology and expand investments related to basic sanitation services.

ARSESP regulates the basic sanitation services that belong to the State, relating to the federal and municipal jurisdictions and prerogatives, and is responsible for:

- the compliance with and enforcement of state and federal basic sanitation legislation;
- the publication of the organizational platform for the services, indicating the types of services provided by the State, as well as the equipment and facilities that compose the system;
- the acceptance, where applicable, of the legal attributions of the jurisdictional authority;
- the establishment, in accordance with the tariff guidelines defined by Decree No. 41,446/96, of tariffs and other methods that provide compensation for our services, adjustment and review of such tariffs and methods to ensure the financial economic balance of services and low cost tariffs through mechanisms that increase service efficiency and lead to the distribution of productivity gains to society; and
- the approval, oversight and regulation (including tariff issues) of the sewage treatment and wholesale water supply agreements entered into between the state supplier and other suppliers, pursuant to Article 12 of the Basic Sanitation Law.

With respect to municipal basic sanitation, ARSESP oversees and regulates services (including tariff issues) that have been delegated by municipalities to the State as a result of cooperation agreements that authorize program agreements between the municipalities and us for as long as it is convenient to the municipality’s public interest. Currently, all of our service agreements signed pursuant to Law No. 11,445/2007 had their regulation and supervision services delegated to ARSESP.

For its services, ARSESP charges 0.50% of the annual total invoice from net operating revenue (excluding revenues relating to the construction of concession infrastructure) of the municipality. This fee is collected from municipalities that have an executed program agreement with us and the municipalities located in the metropolitan regions.

#### ***Rules Enacted by ARSESP***

In 2009, ARSESP enacted rules regarding the following:

- general terms and conditions for water and sewage services;
- procedures for communication regarding any failure in our services;
- penalties for deficiencies in the provision of basic sanitation services; and
- procedures for confidential treatment of our customers’ private information.

The implementation of these and other more recent rules will particularly impact our commercial and operational processes and may adversely affect us in ways we cannot currently predict. Implementation of these rules started in 2011 and is expected to continue for the next few years.

### *Consumer Relations in the State of São Paulo*

In 2011, ARSESP altered the standard contract that we are required to use in our relationships with retail customers. This alteration requires that invoices be sent to the user of the service rather than the owner of the property connected to the public water supply and sewage systems. Since 2011, we have implemented several measures and instituted new rules to update our client registry. Currently, more than 90% of our water and sewage connections are billed to the user of our services, as foreseen under current regulations. Related to the collection of debt, we are also faced with the challenge of collecting customers' taxpayer identification numbers, which are required to register for our services and are needed for the judicial collection of outstanding fees in the event of nonpayment. We continuously update our customers' registration information, but we face difficulties in updating this information in areas with high concentrations of social vulnerability and noncompliance.

Regarding changes to the communication process for the reporting of failures, ARSESP has modified the rules and standards for supervision and reporting of incidents. We have implemented these requested changes. Currently, we receive a portion of the reported incidents online, through the Incident Reporting System ("*Sistema de Comunicação de Incidentes*") established by ARSESP, which introduces greater transparency and control to our operations.

Pursuant to rules provided in ARSESP Resolution No. 846/2018, enacted on December 20, 2018, certain procedures were established to report incidents and interruptions in the provision of water and sewage services through the Supervision Support System (SAFI).

The implementation of these rules, which began in 2011 and was completed in 2018, required certain adjustments to our business and operations, but so far have not adversely affected us. We created a handbook on how to report incidents and interruptions in order to standardize the understanding and usage of the Incident Reporting System (including roles, responsibilities and a step-by-step guide), as well as a training series, directed to each business unit, in order to address the subject and its importance. The goal was to promote a broad communication to all stakeholders mentioned by the ARSESP rules in each available information channel.

We are attentive to these regulatory changes, have been working toward meeting ARSESP's requirements and recommendations, and have presented technical, legal and factual reasons for any conduct that ARSESP may find irregular. As a result, we are subject to few regulatory infractions and to limited fines. See "Risk Factors—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."

### *Our Current Concession Agreements*

The current concessions are based on a standard form of agreement between us and the relevant municipality. Each agreement received the prior approval of the legislative council of each municipality. In the municipalities included in metropolitan regions, urban agglomerations and microregions, the State of São Paulo is also included as a party. The assets comprising the existing municipal water and sewage systems are transferred from the municipality to us in order for us to provide the contracted services. Until 1998, we acquired municipal concessions and the existing water and sewage assets in exchange for our common shares issued at book value. Since 1998, we have acquired concessions and water and sewage assets by paying the municipality an amount equal to the present value of the contracts' estimated cash flows from the date of acquisition of the concession. In 2011, ARSESP set the Weighted Average Cost of Capital (WACC) at 8.06%, due to the First Ordinary Tariff Revision, and in October 2017 the discount rate was updated to 8.11% due to the Second Ordinary Tariff Revision. See "—Tariffs." Since 2011, we have used ARSESP's WACC as a discount rate used to analyze the financial and economic feasibility of the service agreements with municipalities.

The main provisions of our existing concession agreements are as follows:

- we assume all responsibility for providing water and sewage services in the municipality;
- according to the municipal laws authorizing the concession, we are permitted to collect tariffs for our services and tariff readjustments follow the guidelines established by the Basic Sanitation Law and ARSESP;
- as a general rule, to date, we are exempt from municipal taxes, and no royalties are payable to the municipality with respect to the concession;
- we are granted rights of way on municipal property for the installation of water pipes and water transmission lines, and sewage lines; and

- upon termination of the concession, for any reason, we are required to return the assets that comprise the municipality's water and sewage system to the municipality and the municipality is required to pay us the non-amortized value of the assets relating to the concession.

These assets have been considered to be intangible assets since January 2008. See Note 3.8 to our financial statements. Under concession agreements executed prior to 1998, the reimbursement for the assets may be through payment of either:

- the book value of the assets; or
- the market value of the assets as determined by a third-party appraiser in accordance with the terms of the specific agreement.

Our new agreement model follows the provisions of the Basic Sanitation Law. Its main contractual provisions include the joint execution of planning, supervision and regulation of services, the appointment of a regulatory authority for the services, and periodic disclosure of financial statements.

Furthermore, the economic and financial formulas in new agreements must be based on the discounted cash flow methodology and on the revaluation of returnable assets. Pursuant to the Basic Sanitation Law, the preexisting assets will be returned to the grantor of the concession. We will carry out all new investments and the municipalities will record them as assets. The municipalities will then transfer possession of these assets to us for our use and management and will also record a credit in the same amount of the assets recorded in our favor. According to Article 42 of the Basic Sanitation Law, investments made during the contractual period are the property of the applicable municipality, which in turn generates receivables for us that are to be recovered through the operation of the services. These receivables may also be used as guarantees in funding operations.

Another important development was the exemptions from municipal taxes applicable on our operational areas and the possibility of the revaluation of our assets that existed prior to the execution of the agreements in cases involving the early resumption of services by the concession authority.

As of December 31, 2019, we provided water and sewage services to 372 municipalities. The majority of these concessions have 30-year terms. Due to court orders, we suspended our services in two other municipalities (Macatuba and Cajobi). For more information, see "Item 8.A. Financial Statements and Other Financial Information—Legal Proceedings." Between January 1, 2007 and December 31, 2019, we entered into agreements with 325 municipalities (including our services agreement with the city of São Paulo) in accordance with the Basic Sanitation Law, of which 18 were entered into in 2019. As of December 31, 2019, these 325 municipalities accounted for 85.0% of our gross operating revenues from sanitation services (excluding revenues relating to the construction of concession infrastructure). In addition to the contracts that have 30-year terms, the municipalities entered into cooperation contracts with the State of São Paulo, delegating the regulation and monitoring of the provision of services to ARSESP. As of December 31, 2019, 21 of our agreements or concessions had expired but we continued to provide water and sewage services to these municipalities and were in negotiations to execute program agreements to substitute the expired concessions. From January 1, 2020 through 2030, 27 concessions will expire.

Municipalities have the inherent power under Brazilian law to terminate concessions prior to their contractual expiration dates for reasons of public interest. The municipality of Mauá, which we previously served, terminated our concession in December 1995. As arranged, we transferred ownership of the related assets as well as of the provision of services to the municipality of Mauá. In another contract we entered into with the Basic Sanitation Company of the municipality of Mauá (*Saneamento Básico do Município de Mauá – SAMA*) and the municipality of Mauá, we were responsible for providing water on a wholesale basis. However, neither SAMA nor the municipality of Mauá complied with the stipulations of the agreement, culminating in a lawsuit brought against both parties. We demanded monetary compensation for our basic sanitary services. In a separate suit, we are demanding SAMA pay us the correct amount of tariffs for water services it has been receiving without our authorization at a cost below that contracted.

The receivables owed to us by Mauá, due to the termination of the concession, total R\$85.9 million and have not been recognized in our financial statements due to the uncertainty of our ability to collect them. Despite these developments, we currently supply water on a wholesale basis to Mauá. After many years of discussions, on August 16, 2019, we executed a Protocol of Intentions with the municipality of Mauá for the preparation of studies and evaluations aiming to resolve our commercial relations 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.

We currently do not anticipate that other municipalities will seek to terminate concessions due to our close relationship with municipal governments, recent improvements in the water and sewage services we provide, and the obligation of the municipality to repay us for the return of the concession. However, we cannot be certain that other municipalities will not seek to terminate their concessions in the future. See “Item 3.D. Risk Factors—Risks Relating to Our Business—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.”

### ***Operations in the City of São Paulo and Certain Metropolitan Regions***

We are a concessionary of the state of São Paulo tasked with providing operate basic sanitary services in metropolitan regions, microregions and urban conglomerates instituted by state law.

The state of São Paulo, pursuant to Article No. 25, Paragraph 3 of the Brazilian Constitution, enacted the State Supplementary Law, or “LCE,” to create the metropolitan regions of São Paulo (LCE No. 94/1974), Baixada Santista (LCE No. 815/1996), Campinas (LCE No. 870/2000), Vale do Paraíba and Litoral Norte (LCE No. 1,166/2012), Sorocaba No. (LCE No. 1,241/2014) and Ribeirão Preto (LCE 1,290/2016), and the urban clusters of Jundiaí (LCE No. 1,146/2011), Piracicaba (LCE No. 1,178/2012) and Franca (LCE No. 1,323/2018).

On June 18, 2009, Municipal Law No. 14,934/2009 repealed Municipal Law 13,670/2003, which had assigned the responsibility for the city of São Paulo’s planning, regulating and supervising the provision of water supply and sewage collection services exclusively to the city of São Paulo. On June 23, 2010, the State and the city of São Paulo entered into a formal agreement with the purpose of sharing the planning of the provision of water supply and sewage collection services; delegating oversight and regulation, including tariff regulation, to ARSESP; and authorizing the maintenance of water supply and sewage collection services in the city of São Paulo for a 30-year term (renewable for the same period).

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 within the term of five years, counted from the date of the institution of the metropolitan region or urban cluster: (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 intergovernmental governance instruments; and (iii) the criteria to receive federal loans related to urban development. However, this provision was repealed by Federal Law No. 13,688/2018.

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.

However, this decision is not yet fully effective, as a ruling on a motion for clarification is currently pending, and therefore does not yet alter the legislative framework regarding basic sanitation that is currently in effect for the State of São Paulo. The São Paulo metropolitan region (including the municipalities to which we provide water on a wholesale basis, but excluding the concession infrastructure construction revenue) accounted for 73.4% of our operating revenue from services in 2019.

We cannot predict how the shared management of these operations will be carried out in the São Paulo metropolitan region and other metropolitan regions we operate in or what effect it may have on our business, financial condition or results of operations. See “Item 3.D. Risk Factors—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.”

### ***Tariff Regulation in the State of São Paulo***

The tariffs for our services are subject to Federal and State regulation.

On December 16, 1996, the Governor of the State of São Paulo issued the decree No. 41,446/1996, which updated the existing tariff system and allowed us to continue to set our own tariffs. The guidelines by which we readjust our tariffs are defined pursuant to State Decree No. 41,446/1996, which were ratified by Federal Law No. 11,445/2007 and regulated by resolutions issued by ARSESP.

Our tariffs are based on the general objectives of maintaining our financial condition and preserving “social equality” in terms of the provision of water and sewage services to the population while providing a return on investment. The governor’s decree also directs us to apply the following criteria in determining our tariffs:

- category of use;
- capacity of the water meter;
- characteristics of consumption;
- volume consumed;
- fixed and floating costs;
- seasonal variations of consumption; and
- social and economic conditions of residential customers.

With the enactment of the Basic Sanitation Law and Federal Consortium Law, we are prohibited from planning, overseeing and regulating services, which includes determining the tariff policy to be adopted. Such activities are to be exercised by the owner of the concession. Except for the responsibility for planning, the remaining activities may be delegated.

The current tariff structure maintains different tariff schedules, depending upon whether a customer is located in the São Paulo metropolitan region or the Regional Systems. There are four levels of volume consumed for each category of customer, except for the residential-social and shantytown (*favelas*) categories. The residential-social tariffs apply to residences of low-income families, residences of persons unemployed for up to 12 months and collective living residences. The *favela* tariffs apply to residences in shantytowns characterized by a lack of urban infrastructure. The latter two sub categories were instituted to assist lower income customers by providing lower tariffs for consumption. Customers are billed on a monthly basis. Water and sewage bills are based upon water usage determined by monthly water meter readings. Larger customers, however, have their meters read every 15 days to avoid nonphysical loss resulting from faulty water meters. Sewage billing is included as part of the water bill and is based on the water meter reading. We are also authorized to enter into individual contracts with certain customers, such as municipalities, to supply water or sewage services on a wholesale basis.

Furthermore, since Law No. 11,445/2007 permits municipalities to create their own regulatory agencies rather than being subjected to overview by ARSESP, a number of municipalities created their own regulatory agencies.

The municipalities in which the hydrographic basins of the Piracicaba, Capivari and Jundiá rivers are located created a consortium known as the Regulatory Agency of Sanitation Services for the Piracicaba, Capivari and Jundiá River Basin (*Agência Reguladora dos Serviços de Saneamento das Bacias dos Rios Piracicaba, Capivari e Jundiá*), or ARES-PCJ, in 2011 to regulate and supervise our activities in those areas. As a result of the creation of ARES/PCJ, we were involved in legal proceedings in which ARES/PCJ is claiming that it has jurisdiction over the regulation and supervision of our activities in four municipalities (Piracaia, Mombuca, Santa Maria da Serra and Águas de São Pedro). In 2016 we obtained a definitive favorable decision in the Piracaia proceeding and in 2018, we obtained a definitive favorable decision in the Mombuca and Santa Maria da Serra proceedings. In 2019, the case involving Águas de São Pedro was dismissed, given that the Municipality requested its removal from the ARES/PCJ, after which the lawsuit lost its object-matter.

In November 2013 the Regulatory Agency of São Bernardo do Campo was created. However, when the contract was signed with the municipality of São Bernardo do Campo in 2019, the regulation and supervision of services were delegated to ARSESP. See “Item 3.D. Risk Factors—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 2014-2015 Water Crisis**

Prior to 2014, we planned our supply of water to the São Paulo metropolitan region based on the water supply during the driest period on record, which was from 1953 to 1954. However, water inflow to the Cantareira reservoirs throughout 2014 and most of 2015 was less than half the inflow recorded in 1953, the previous most critical year. Consequently, the volume of water stored in the reservoirs in 2014 and 2015 declined significantly until September 2015, when the reservoirs once again held more water than 12 months previously for the first time since the beginning of the water crisis. Once rainfall returned the level of water in the reservoirs that provide water to the population of the São Paulo metropolitan region to normal levels, the measures taken during the water crisis to continue services to consumers were gradually discontinued starting in early 2016. As of December 31, 2019, the reservoirs in the São Paulo metropolitan region contained 1.1 billion m<sup>3</sup> of water storage for treatment, compared to 943.3 million m<sup>3</sup> available for treatment as of December 31, 2018 not including the technical reserve of 287.5 million m<sup>3</sup>. The average monthly water production in 2019 for the São Paulo metropolitan region was 62.9 cubic meters per second, or m<sup>3</sup>/s, compared to 60.9 m<sup>3</sup>/s in 2018 and 60.6 m<sup>3</sup>/s in 2017.

For more information on the water production systems which we use to produce water for the São Paulo metropolitan region, see “Item 4.B. Business Overview—Description of Our Activities—Water Operations—Water Resources.”

#### *Cantareira System*

The Cantareira System is located in the northern area of the São Paulo metropolitan region. It uses water extracted from the PCJ River Basin and the Juqueri River Basin and consists of six reservoirs interconnected by a complex water network of tunnels and pipes, located along the municipalities of São Paulo, Mairiporã, Nazaré Paulista, Piracaia, Vargem, and Joanópolis. The latter two are located on the border of the state of Minas Gerais, approximately 100 kilometers from the city of São Paulo. Gravity forces the flow of water from one reservoir to another, and once the water reaches the Paiva Castro reservoir, located in the Juqueri River Basin, it is pumped to the Guaraú water treatment plant.

Prior to February 2014 and the water crisis, this system supplied water to approximately 8.9 million people, with an average extraction of up to 33 m<sup>3</sup>/s to serve the São Paulo metropolitan region. After the water crisis, when conditions returned to normal levels, this system supplies water to approximately 7.0 million people, with an annual average water production of up to 23.8 m<sup>3</sup>/s in 2019 in order to serve the São Paulo metropolitan region. Since May 2017, the volume of water that may be extracted from the Cantareira System is now based on the volume of water available in the reservoirs. A minimum of 10 m<sup>3</sup>/s of water may be released to serve the metropolitan region of Campinas and Jundiaí, which is located downstream from the reservoirs. This flow is defined in Joint Resolution Nos. 926/2017 and 925/2017, both dated May 29, 2017.

In May 2017, the concession that regulates the volume of water that may be extracted from the Cantareira System, issued by ANA and DAEE was renewed for a period of 10 years and will allow us to withdraw from the system is divided into five tranches: (i) if the volume of water available is higher than 60% of the reservoirs’ capacity, we can withdraw up to 33 m<sup>3</sup>/s; (ii) if the volume of water is between 40% and 60% of the reservoirs’ capacity, we can withdraw up to 31 m<sup>3</sup>/s; (iii) if the volume of water is between 30% and 40% of the reservoirs’ capacity, we can withdraw up to 27 m<sup>3</sup>/s; (iv) if the volume of water is between 20% and 30% of the reservoirs’ capacity, we can withdraw up to 23 m<sup>3</sup>/s; and (v) if the volume of water available is lower than 20% of the reservoirs’ capacity, we can withdraw up to 15.5 m<sup>3</sup>/s.

As of December 31, 2019, the reservoirs in the São Paulo metropolitan region, where our largest market is located, contained 1.1 billion m<sup>3</sup> of water storage for treatment, compared to 943.3 million m<sup>3</sup> available for treatment as of December 31, 2018. These figures do not include the Cantareira System’s technical reserve of 287.5 million m<sup>3</sup>.

The following table shows the volume of water stored in the systems that serve the São Paulo metropolitan region as of December 2016, March 2017, December 2017, March 2018, December 2018, March 2019, December 2019 and March 2020, the end of the rainy season:

	For the month								Total Storage Capacity
	March 2020	December 2019	March 2019	December 2018	March 2018	December 2017	March 2017	December 2016	
Cantareira	632.2	396.4	542.4	387.8	532.3	405.2	931.9	740.1	1,269.5 <sup>(1)(2)</sup>
Guarapiranga	141.4	110.5	155.8	103.3	141.4	101.6	135.4	123.6	171.2
Rio Grande	98.8	93.0	113.1	92.4	97.2	92.2	98.9	99.3	112.2
Rio Claro	13.4	13.4	14.0	10.9	13.9	10.1	13.9	11.3	13.7
Alto Tietê	497.9	430.3	511.9	282.6	362.8	294.8	314.6	248.1	573.8
Cotia	16.9	12.2	16.8	7.1	15.2	12.9	16.4	16.2	16.5
São Lourenço	87.8	52.3	87.2	59.1	-	-	-	-	88.8

<sup>(1)</sup> The Cantareira system’s total storage capacity is 982.0 million m<sup>3</sup> available above the water intake level, plus 287.5 million m<sup>3</sup> below the water intake level (known as the “technical reserve”).

<sup>(2)</sup> Amounts included since the May 2017 water right renewal do not include the water from the Cantareira System’s technical reserve, which is water stored below the water intake level.

In order to continue to meet consumer demand in the São Paulo metropolitan region and reduce water production in the Cantareira system to the current limits set by ANA and DAEE, we adopted the following measures from February 2014 to early 2016 to maintain continuous water supply:

- use of treated water from other production systems to serve consumers originally supplied by the Cantareira system;

- implementation of a bonus program and contingency tariff;
- reduction of pressure in pipes in order to decrease leakage;
- adjustment to the volume of treated water sold to municipalities that operate their own distribution network, due to the reduced availability of water; and
- extraction of water from the technical reserve.

The first four measures resulted in significant water savings and helped to offset the reduced volume of water extracted from the Cantareira System. The extraction of water from the technical reserve was critical to maintaining a continuous supply of water to the population.

With the return of historical average rainfall in the rainy season from October 2015 to March 2016, water levels for the São Paulo metropolitan region returned to normal and we gradually discontinued the measures that we had taken during the water crisis.

#### *Emergency Projects and Projects Implemented to Meet the Water Demand of the São Paulo Metropolitan Region*

In addition to the measures taken to meet consumer demand in the São Paulo metropolitan region, we made and continue to make short and medium-term investments in projects to increase water availability, transfer water between different reservoir systems and expand water treatment production capacity.

Our production of treated water was expanded by 8.6 m<sup>3</sup>/s with the completion of the São Lourenço Project. In addition, an additional 13 m<sup>3</sup>/s was made available to our reservoirs through interconnections to other reservoirs in the state of São Paulo, which will be available to us if reservoirs levels once again become low. Completion of these projects results in improved water security for the Integrated Water Supply System (*Sistema Integrado de Abastecimento de Água*), or SIM.

The main projects include:

- Alto Tietê System – transfer of an additional 1 m<sup>3</sup>/s from the Guaió River to the Taiacupeba reservoir, in order to recover the reserve volume of the Alto Tietê System. This project was concluded in June 2015.
- Alto Tietê System – transfer of additional up to 4.0 m<sup>3</sup>/s from Rio Grande - Billings reservoirs to the Alto Tietê System. This project was concluded in September 2015.
- Guarapiranga System – transfer of an additional 1 m<sup>3</sup>/s of which results from the expansion of the transfer capacity of the Billings reservoir to the Guarapiranga reservoir. This project was concluded in December 2015.
- Interconnection of the Jaguari and Atibainha reservoirs – the purpose of this project is to recover water levels and increase the water security of the Cantareira System. The interconnection increases water availability in the Cantareira System by 5.13 m<sup>3</sup>/s (annual average) to 8.5 m<sup>3</sup>/s (maximum) by transferring water from the Jaguari reservoir to the Atibainha reservoir. Construction of the interconnection began in February 2016 and was completed in March 2018. Upon completion of construction, we began transferring water from the Jaguari reservoir (part of the Paraíba do Sul Basin) to the Atibainha reservoir (part of the PCJ River Basin). For more information, see “Item 4.A. History and Development of the Company—Main Projects of Our Capital Expenditures Program.”
- Implementation of the São Lourenço Production System – this project was commenced in April 2014 and was completed in April 2018 and operations began in July 2018. This system has an average water treatment capacity of 6.0 m<sup>3</sup>/s. For more information, see “Item 4.A. History and Development of the Company—Main Projects of Our Capital Expenditures Program.”
- Alto Tietê System – transfer of an additional average 2.0 m<sup>3</sup>/s and up to 2.5 m<sup>3</sup>/s from the Itapanhaú river to the Biritiba reservoir, which will provide more volume to the Alto Tietê System. The project is expected to begin construction in 2020. For more information, see “Item 4.A. History and Development of the Company— Main Projects of Our Capital Expenditures Program.”

#### **Marketing Channels**

As of December 31, 2019, we were the concessionaire for the provision of water supply and collection, treatment and disposal of sewage services directly to end consumers for 372 municipalities in the state of São Paulo. We also supplied water on a wholesale basis to three municipalities located in the São Paulo metropolitan region. It is the responsibility of these municipalities to then distribute the water to end consumers. We provide sewage services to two of these municipalities. Because of our distribution infrastructure, end consumers to whom we offer water services on a wholesale basis cannot alternatively acquire such services directly from us. For more information on service concessions, see “—Wholesale Operations.”



## Energy Consumption

Energy is essential to our operations, and as a result we are one of the largest users of energy in the state of São Paulo. In the year ended December 31, 2019, we used approximately 1.9% of the total energy consumption in the state of São Paulo. To date, we have not experienced any major disruptions in energy supply. Any significant disruption of energy to us could have a material adverse effect on our business, financial condition, results of operations or prospects. Energy prices have a significant impact on our results of operations. In 2019, we purchased approximately 55.1% of our total energy consumption in the “free market,” where we can more efficiently negotiate the supply of energy; and the remainder of our energy consumption comes from the Regulated Market. This allowed us to save approximately R\$ 207 million in 2019, compared to what we expect we would have spent if we purchased all of our total energy consumption in the Regulated Market.

Additionally, we are developing projects that aim to generate clean, renewable and sustainable energy. In 2019, we began to structure a Distributed Power Generation Program focused on solar energy. The program estimates that until 2022 we will have a generation capacity of 61 megawatt, with a daily average output of 21 megawatts, corresponding to about 4.5% of our total energy consumption. The credits obtained in this distributed generation will be used to offset energy consumption of low voltage installations, which have a higher tariff. As such, about 60% of energy consumption carried out in low voltage will be supplied by renewable energy. The investment of approximately R\$310 million foreseen in this program has an estimated payback of 7 to 8 years.

Most of the energy produced in Brazil comes from hydroelectric power plants. For more information on energy, see “Item 3.D. Risk Factors—Risks Relating to Our Business— Extreme Weather Conditions and Climate Change may have a material adverse impact on our business, financial condition or results of operations.”

## Insurance

We maintain insurance covering, among other things, fire or other damage to our property and office buildings and third-party liability. We also maintain insurance coverage for directors’ and officers’ liability (D&O insurance). We currently obtain our insurance policies by means of public bids involving major Brazilian and international insurance companies that operate in Brazil. As of December 31, 2019, we had paid a total aggregate amount of R\$5.9 million in premiums. In addition, we paid R\$1.5 million for a D&O insurance policy, covering R\$5.2 billion in assets, third-party liabilities and D&O insurance. We do not have insurance coverage for business interruption risk because we do not believe that the high premiums for such insurance are justified by the low risk of major interruption of our activities. In addition, we do not have insurance coverage for liabilities arising from water contamination or other problems involving our water supply to customers and for environmental related liabilities and damages. We believe that we maintain insurance at levels customary in Brazil for our type of business.

## Intellectual Property

### Trademarks

We have secured registration of our logo and composite trademark (“Sabesp”) at the Brazilian Institute of Industrial Property (*Instituto Nacional da Propriedade Industrial*), or INPI. In addition, we have registered with the INPI several other trademarks, such as: “Sabesp Soluções Ambientais”, “Projeto Tietê”, “Programa Córrego Limpo”, “Programa Onda Limpa”, “PROL – Programa de Reciclagem do Óleo de Fritura”, “Revista DAE”, “Ligação Sabesp”, “Agente da Gente – Sabesp na Comunidade”, “PURA – Programa de Uso Racional da Água”, “Sabesp Inteligência Ambiental”, “Uso Racional da Água”, “Parque da Integração”, “Sabesp Semana do Meio Ambiente”, “Água Sabesp Aquífero Guarani”, “Água Sabesp Estação Cantareira”, “Contrato de Fidelização Sabesp”, “Esgoto Não Doméstico Sabesp”, “PEA – Programa de Educação Ambiental – Sabesp”, “Sabesp Abraço Verde”, “Água de Reúso Sabesp”, “Eu Sou Guardião das Águas Sabesp Eu Não Desperdiço”, “Calculadora de Sonhos”, “Parque Sabesp Mooca”, “Parque Sabesp Butantã”, “Parque Sabesp Cangaíba”, “Programa Água Legal Sabesp”, “Signos – Sistema de Informação Geográfica no Saneamento Sabesp”, “Sistema de Suporte a Decisões Sabesp”, “Fertilizante Sabesfértil Sabesp”, “Pitch Sabesp”, “Novos Negócios Sabesp”, “Centrais de Geração, Hidrelétrica Sabesp”, “Biogás Sabesp”, “Energia Fotovoltaica Sabesp”, “Energia Eólica Sabesp”, “Resíduos Sólidos Urbanos Sabesp”, “Fertilizantes Sabesp”, “Tocha de Plasma Sabesp”, “Serviços Técnicos Sabesp”, “Afinidades Sabesp”, “Fibra Ótica nas Redes Sabesp”, “Geosabesp Sabesp”, “Waste To Energy Sabesp”, “Redução de Perdas Sabesp”, “Serviços Imobiliários Sabesp” and “Clubinho Sabesp”, which is a tool for environmental education directed to children through our website, and of its characters: “Super H2O”, “Gota Borrallheira”, “Gotucho”, “Ratantan”, “Dr. Gastão”, “Cauã”, “Denis”, “Gabi”, “Iara”, “Sayuri” and “Cadu”.

## *Patents*

We have a patent granted by the INPI for a device for the removal of supernatants during the sewage treatment process.

We have also filed ten patent applications for the following additional devices or inventions, currently awaiting the INPI's decisions, some of which have been jointly filed with certain Brazilian universities as a result of our cooperation agreements with these institutions:

- a biofilter odor control unit;
- rotary devices used to clean water reservoirs transported by trucks with high-pressure hydrojetting systems;
- a digital leakage detection system, jointly filed with the University of São Paulo - USP;
- a chemical composition sensor, its fabrication process and use to measure pH in microfluid systems, jointly filed with the University of São Paulo - USP;
- a bubble removal system, autonomous microlaboratory and use of autonomous microlaboratory to monitor water quality, jointly filed with the University of São Paulo - USP;
- a box for installation of water meters; and
- water leakage detection equipment (consisting of four requests), jointly filed with FAPESP and Universidade Estadual Paulista Júlio De Mesquita Filho – UNESP.

For more information on our cooperation agreements with Brazilian universities and FAPESP, see “Item 5. Operating and Financial Review Prospects—C. Research and Development, Patents and Licenses, etc.—Research and innovation.”

## *Software*

We have adopted an internal policy that provides for an active and effective audit and prevention of unauthorized software. We have acquired the software licenses for all our workstations.

We have also developed certain computer programs for management and control of water and sewage treatment facilities, as well as for third-party services management, called “AQUALOG” (Control Water Treatment Plants), “SGL” (Bid Management System), “SCORPION” (Software to Operational Control), “Electronic Price Quotation,” “PREGÃO SABESP ONLINE,” “SISDOC” (Document Control System), “system for analyzing the metrological behavior of water meters,” “MPLT” (Standardized Model of Technical Report), “SGH” (Hydrometry Management System), “SIA” (Audit Information System), “CSI” (Business System: Information Services), “NETCONTROL” (Automation System of Sanitary Control Laboratories), “SACE” (External Commercial Service System), “SAN” (Navigation Support System), “online software for managing specific articles published in the DAE engineering journal,” “Dashboard panel,” “COP” (Online Control of Water Losses), “GEL” (Power Management System), “CADGEO,” “LIGGEO,” “Intellectual Property Management System,” “SOE” (Business Organization System), “Application for Predicting the Concentration of Cyanobacteria through Artificial Intelligence” and “Sabesp Decision Support System - SSD.”

Among them, we highlight:

- AQUALOG is a software designed to monitor water treatment through the employment of artificial intelligence. In 2001, we completed the first rendering of services based on the AQUALOG software to a third party with the automation of a water treatment plant in the city of Jaguará do Sul, State of Santa Catarina. We have entered into an agreement to license the software to Sanesul, in the state of Mato Grosso do Sul and to Teuto's drugs factory, in the city of Anapólis, state of Goiás;
- SGL is an electronic price quotation system that allows us to view and control all bid and acquisition proceedings in real time;
- CADGEO and LIGGEO are computer programs used to locate the water and sewage infrastructure in times of installation, maintenance or expansion in real time via satellite;
- “Application for Predicting the Concentration of Cyanobacteria through Artificial Intelligence,” is an application that was developed as a result of a joint research project by us, FAPESP and the Federal University of São Paulo – UNIFESP;

- “Sabesp Decision Support System - SSD” is a software that contains graphic interfaces for updating data, queries of information in the form of graphs and tables, regarding the operation of water-producing systems and dissemination of data to society through newsletters generated by the system.

We have also registered all of these programs at the INPI.

### **Domain Names**

We own the domain names described below which have been registered with the relevant entity in Brazil, Registro.br:

- www.sabesp.com.br;
- www.projetotiete.com.br;
- www.revistadae.com.br; and
- www.sustentabilidadesabesp.com.br.

### **Environmental Matters**

Our environmental management, which is guided by the directives established in our environmental policy, is inherent to the provision of our services and the essence of our business. In order to consolidate our environmental culture, we have an Environmental Corporate Management Department and Environmental Management Teams allocated in our business units. Our environment management is based in two pillars of action: (i) environmental compliance and (ii) change of environmental culture. We prioritize the internal and external dissemination of knowledge and experience on the best environmental practices. There are actions of our environmental management corporate program that rely on the involvement of collaborators, the communities we service and partnerships with non-governmental organizations.

We have the following ongoing environmental management programs:

- development of the Corporate Greenhouse Gas Management Program (*Programa Corporativo de Gestão de Emissões de Gases de Efeito Estufa*), in line with the guidelines from the São Paulo State Climate Change Policy (PEMC), including the preparation of annual inventories on emissions, raising environmental awareness and encouraging the reduction of greenhouse gas emissions in our operations;
- continuation of the actions set out in our corporate programs for maintaining environmental licenses and grants for the right to use water;
- the Environmental Education Program (PEA-SABESP), an important tool for strengthening the effectiveness of our sanitation activities, which propitiates connections with the communities we service through over several environmental education projects. The activities developed by the PEA are organized with the following objectives: raise awareness on the intrinsic value of water; protect the environment; preserve streams; improve the quality of the environment; raise awareness on sanitation activities; raise awareness on the conscious use of water; and direct capacitation and production of guiding material, which involve activities with civil society groups, education centers, municipal governments and non-governmental organizations;
- Management of our institutional representation in the State and National Systems of Water Resources, including training of company representatives to participate in: (i) the creation of criteria for water usage charges, (ii) preparation and review of river basin plans (*Planos de Bacias*), (iii) review of water bodies’ classifications, and (iv) analysis of legislations regarding the protection of water sources;
- the SABESP 3 Rs Program (*Programa SABESP 3Rs*) for the reduction, re use and recycling of waste from administrative activities, in partnership with waste and recycling collecting cooperatives and which includes employee training enabling them to act as multipliers in the roll-out of the program;
- the progressive implementation and maintenance of the Environmental Management System (EMS) in our water and sewage treatment plants. Since 2015, we have been working on the EMS with a mixed model, whereby the ISO 14001 standard is applied to a limited number of certified plants, while the other stations adopt their own environmental management model (named SGA-SABESP), without aiming certification. The EMS is currently in place in 390 treatment plants, 35 of which are ISO 14001 certified. We expect to implement the EMS in all stations by 2024;

- Development of the Corporate Program for Sustainable WWTPs, which aims to disseminate the culture of sustainability in the Company and the application of technologies and practices to transform the by-products generated in sewage treatment plants, specifically, biogas, sludge and effluent, in sustainable resources for beneficial use, with added value for the market, considering their energy use; and
- Implementation of the regularization and acceleration of the terms of commitment for environmental recovery corporate program for the environmental licensing of new companies, which includes obligations of forest restoration with environmental compensation purposes, when necessary. This program includes the planting and maintenance of 1 million seedlings of local and native species in the period of ten years, in order to deal with current obligations, as well as to new terms of commitment for environmental recovery related to the implementation of new projects. The action is part of the Springs Program (*Programa Nascentes*) created by the Government of the State of São Paulo and prioritizes the restoration of water spring protection areas. Currently 625 thousand seedlings have been planted and are being maintained.

In addition to corporate environmental management initiatives, we have several projects and initiatives underway to benefit the environment by engaging the population at large.

We are also signatory of United Nations Global Compact and supports the 17 United Nations Sustainable Development Goals, which aims to stimulate actions in areas of crucial importance to humanity, the planet, countries and the companies.

#### ***Climate Change Regulations: Reduction of Greenhouse Gases (GHG) Emissions***

We are required to comply with laws and regulations related to climate change, including international agreements and treaties to which Brazil is a signatory.

The São Paulo State Climate Change Policy (Law No. 13,798/2009), enacted on November 9, 2009, and regulated by Decree No. 55,947 of June 24, 2010, aims to reduce global emissions of carbon dioxide by 20.0% by 2020 compared with 2005 levels. Brazil's Climate Change Policy (Law No. 12,187/2009), enacted on December 29, 2009 and regulated by Decree No. 7.390/2010 establishes a voluntary national commitment to reduce Brazil's currently projected GHG emissions for 2020 by a percentage between 36.1% and 38.9%. Such targets have not been established for the sanitation sector yet. In this sense we have a Corporate Greenhouse Gas Management Program aimed at raising awareness on the topic, preparing annual inventories of greenhouse gas emissions and establishing and carrying out actions to reduce greenhouse gas emissions.

In 2019, we concluded the corporate inventory of greenhouse gases for 2018, thus totaling 12 inventories since 2007. We noted that the trend observed in the previous inventories persists, specifically that activities regarding sewage collection and treatment remain our largest sources of greenhouse gas release, representing approximately 90,4% of total greenhouse gas release. Electric energy represents approximately 8.1% and other activities represent approximately 1.5%.

We have projects in the research and development stages that entail using biogas generated in the treatment of sewage and recycling sewage sludge as a possible way to reduce the gases released in the treatment processes, among other technological resources to reduce the amount of sludge disposed in landfills. We also have initiatives to reduce our emission of greenhouse gases, such as the coverage of stabilization ponds and drying of sludge by solar irradiation and the processing of biogas for vehicular use.

At this point, it is still not possible to predict if climate change policies will provide opportunities or generate new costs for us. Reducing our emissions of carbon dioxide will involve costs and expenses related to implementing more stringent control mechanisms, adopting pollution prevention measures and actions to minimize the generation of GHGs. We may not receive financial incentives to offset all or part of these costs. In addition, if limitations in GHG emissions affect our supply chain and increase our costs, we may not be able to pass on these costs to our end consumers. See “—Tariffs.”

#### ***Physical Effects of Extreme Weather Events***

Since our financial performance is closely linked to climate patterns that influence the qualitative and quantitative availability of water, extreme weather conditions may cause adverse effects on our business and operations. Long-term effects of extreme weather conditions cause significant alterations in the physical environment that may create unfavorable circumstances, which could affect our operations.

An increase in heavy rainfall can impact the regular operation of water sources, including abstraction of water from our dams, through potential increased soil erosion, silting and runoff of pollutants that can affect aquatic ecosystems. In addition, increased flows of rainwater into sewage systems may overwhelm the capacity of sewage treatment plants.

In the case of prolonged periods of drought, for example, reduced water levels in dams can greatly impact the production process. Droughts also lower reservoir levels available for hydroelectric plants, which may lead to power shortages, particularly since hydroelectric power accounts for most of Brazil's electric power supply. Lack of electric energy could lead to instability in water supply and sewage collection and treatment services, which could damage our reputation. In addition, because we are one of the largest consumers of electricity in the state of São Paulo, a potential increase in electricity tariffs due to a shortage of hydroelectric power could have a significant economic impact on us.

We are also the concessionaire for water and sewage services for all the coastal municipalities of the state of São Paulo. A rise in the 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.

Extreme climate events may also affect the extraction, production and transportation of the materials necessary for our operations, such as water treatment materials, and may lead to an increase in the cost of these materials. A drastic rise in air temperature could also increase consumer demand for water, increasing the need to expand both water supply and sewage treatment.

In this context, our strategy calls for identifying mitigating actions and enlarging their coverage in the areas we operate in, as well as identifying opportunities to increase our effectiveness and to implement new technologies. With regard to the risk of reduced water availability, we are working to adapt to a new scenario of water scarcity due to the risks associated with the effects of climate change through initiatives such as the Program for Reduction of Water Loss, the Program for Rational Water Usage and the expansion of the planned reutilization of effluents for urban and industrial purposes, among others.

See "Item 3.D. Risk Factors—Risks Relating to Our Business—New laws and regulations relating to climate change and changes in existing regulation, as well as the escalation of the physical effects of extreme weather events, may result in increased liabilities and increased capital expenditures, which could have a material adverse effect on us."

### ***Public Bidding Procedures***

Pursuant to the Federal Public Bidding Law, the public bid process commences with publication by the granting authority in a federal, state or municipal official newspaper, as the case may be, and another leading Brazilian newspaper. The publication announces that the granting authority will carry out a public bidding contest pursuant to provisions set forth in an *edital* (invitation to bid). The invitation to bid must specify, among other terms: (i) the purpose, duration and goals of the bid; (ii) the participation of bidders, either individually or forming a consortium; (iii) a description of the qualifications required for adequate performance of the services covered by the bid; (iv) the deadlines for the submission of the bids; (v) the criteria used for the selection of the winning bidder; and (vi) a list of the documents required to establish the bidder's technical, financial and legal capabilities.

The invitation to bid is binding on the granting authority. Bidders may submit their proposals either individually or in consortia, as provided for in the invitation to bid. After receiving proposals, the granting authority will evaluate each proposal according to the following criteria, which must have been set forth in the invitation to bid:

- the technical quality of the proposal;
- lowest cost or lowest public service tariff offered;
- a combination of the criteria above; or
- the largest amount offered in consideration for the concession.

The provisions of State Law No. 6,544/1989 of November 2, 1989, as amended, or the State Public Bidding Law, parallel the provisions of the Federal Public Bidding Law. The Federal and State bidding laws will apply to us in the event that we seek to secure new concessions. Moreover, these bidding laws currently apply to us with respect to obtaining goods and services from third parties for our business operations or in connection with our capital expenditure program, in each case subject to certain exceptions.

On June 30, 2016, Federal Law No. 13,303/16 came into force in Brazil. This law sets new rules Brazilian government-owned and mixed capital companies like our company must follow in public bidding procedures and when contracting third parties. These requirements were implemented by June 30, 2018.

### ***Water Usage***

State law establishes the basic principles governing the use of water resources in the state of São Paulo in accordance with the State constitution. These principles include:

- rational utilization of water resources, ensuring that their primary use is to supply water to the population;
- optimizing the economic and social benefits resulting from the use of water resources;
- protection of water resources against actions which could compromise current and future use;
- defense against critical hydrological events which could cause risk to the health and safety of the population or economic and social losses;
- development of hydro-transportation for economic benefit;
- development of permanent programs of conservation and protection of underground water against pollution and excessive exploitation; and
- prevention of soil erosion in urban and rural areas, with a view to protecting against physical pollution and silting of water resources.

Among other instruments established by the State Water Policy, Law No. 7,663 of December 30, 1991, the competent public authority grants for the right to use water for the implementation of any enterprise that demands the use of surface or underground water resources (for water collection and release of effluents), as well as for the execution of services that alter the regime or quality of such water resources. In the case of rivers under the federal government's domain (rivers crossing more than one state), ANA is the public authority which grants the authorization. With respect to the rivers under a state's domain, the applicable state authority has jurisdiction to grant the right of use. In the state of São Paulo, DAEE is the public authority responsible for granting such authorizations.

State Law No. 12,183/2005, which was enacted on December 29, 2005, established the basis for charging for the use of the water resources under the domain of the State of São Paulo. To apply such charging, the law provides for, among other provisions, the participation of the River Basins Committees, the formulation of criteria by such committees, the creation of basin agencies and the organization of a registered list of water resource users. The basin committee's proposals regarding the criteria to calculate the amounts to be charged at each basin must be approved by the State Water Resource Council and formalized by a decree issued by the State Governor.

According to existing law, the hydrographic basins committees are authorized to charge users, such as us, for the abstraction of water from, or dumping of sewage into, water bodies.

Charging for the use of water is under gradual implementation by the State of São Paulo, where the largest individual contributors are located, and it is a management tool of the Policy on Water Resources to promote the rational use of water and finance programs and actions established by the basin plans. In 2019, we paid approximately R\$89.2 million for the use of water resources.

Charging for the use of water from rivers of federal domain began in 2003 in the Paraíba do Sul basin, and charging for the use of water from rivers of state domain began in 2007 in the Paraíba do Sul, Piracicaba, Capivari and Jundiá basins. Subsequently, charges were implemented for the use of water from the Sorocaba and Médio Tietê, Baixo Tietê and Baixada Santista river basins. In 2014, charges were implemented for the use of water from the Alto Tietê river basin, and in 2016, from the Tietê / Batalha, Tietê / Jacaré and Ribeira de Iguape river basins. In 2017, charges were implemented for the use of water from the Sapucaí Mirim/Grande, Baixo Pardo/Grade, Mogi Guaçu and Pardo river basins. In 2018, the charge of the Turvo Grande/Médio Paranapanema/Pontal do Paranapanema committees was implemented, and the implementation of the charge in the Litoral Norte, São José dos Dourados e Alto Paranapanema river basins is expected for 2020, since the decrees were approved in 2019.

### ***Water Quality***

Attachment XX of the Consolidation Administrative Rule No. 5 from September 28, 2017, issued by the Ministry of Health of the federal government, provides the standards for potable water for human consumption in Brazil. This rule is similar to the U.S. Safe Drinking Water Act and the regulations enacted by the U.S. Environmental Protection Agency, which establishes rules for sampling and limits related to substances that are potentially hazardous to human health.

In compliance with Brazilian law, the physical-chemical, organic and bacteriological analyses carried out for water quality control must follow several national and international standards, such as: Standard Methods for the Examination of Water and Wastewater from the institutions such as the American Public Health Association (APHA), American Water Works Association (AWWA) and Water Environment Federation (WEF); United States Environmental Protection Agency (EPA); standards published by the International Standardization Organization (ISO); and methodologies proposed by the World Health Organization (WHO).

Decree No. 5,440/2005 provides that the quality of water must be disclosed to consumers. We have been complying with this regulation by publishing the required information in monthly bills and annual reports delivered to all consumers that we serve.

### ***Environmental Regulation***

The implementation and operation of water and sewage systems are subject to strict federal, state and municipal laws and regulations on environmental and water-resource protection. The National Environmental Council (*Conselho Nacional de Meio Ambiente*), or the CONAMA, is the federal agency responsible for the regulation of potentially polluting activities. In the state of São Paulo, CETESB is the governmental entity responsible for the control, supervision, monitoring and licensing of polluting activities, pursuant to State Law No. 997/1976, as amended by State Decree No. 8.468/1976 and its amendments.

The control and environmental planning instruments are defined by several legal instruments, such as State Law No. 997/1976, regulated by Decree No. 8,468/1976 and its amendments, which regulates environmental pollution control and establishes the standards for discharge of effluents at state level; CONAMA Resolution No. 05/1988, which requires licensing of sanitation projects that cause significant alterations to the environment; Supplementary Law No. 140/2011 CONAMA Resolution No. 237/1997, which regulates (i) environmental licenses; (ii) federal, state and local jurisdiction over environmental issues; (iii) the list of activities subject to licensing; and (iv) environmental impact studies and reports; State Law No. 9,509/1977, regulated by State Decree No. 47,400/2002, which outlines the state environmental policy; CONAMA Resolution No. 357/2005, amended by CONAMA Resolution No. 430/2011, which establishes the standards for discharge of effluents; and DAAE Ordinance No. 1,630/2017 and ANA Resolution No. 1,941/2017, which regulate the concession of grants for the right to use water and interfere in water resources on the State and federal level, respectively.

The licensing process, usually, is composed of three stages, including the following licenses which can be renewed:

- preliminary license – granted in the planning stage, approving the location and concept and attesting to the project’s environmental feasibility;
- installation license – authorizing the beginning of works for the installation of the project, subject to compliance with approved plans, programs and projects, including environmental control measures and other necessary technical requirements; and
- operation license – authorizing the operation of a unit or activity, subject to compliance with the technical requirements contained in the installation license.

Projects with significant environmental impact are subject to specific studies prepared by multidisciplinary teams that present a series of recommendations focused on minimizing the environmental impact. These studies are then submitted for analysis and approval by the government authorities.

### ***Sewage Requirements***

State law sets forth regulations regarding pollution control and environmental preservation in the state of São Paulo. According to this law, in areas in which there is a public sewage system, all effluents of a “polluting source” must be discharged to such system, as is the case for industrial enterprises. It is the responsibility of the polluting source to connect itself to the public sewage system. All effluents to be discharged are required to meet the standards and conditions established by the applicable environmental law, which allows such effluents to be treated by our treatment facilities and discharged in an environmentally safe manner. Effluents that do not comply with such criteria are prohibited from being discharged into the public sewage system. State legislation also establishes that liquid effluents, except those related to basic sanitation, be subjected to pre-treatment so that they meet the required mandatory levels before being discharged into the public sewage system. Effluents from our treatment facilities must comply with effluent limitation guidelines and meet the water quality standards of the receiving water bodies established by federal and state legislation. See “—Sewage Operations—Sewage System.”

The CETESB is authorized under State law to monitor discharges of effluents into the water bodies, among other things. The CETESB also issues the environmental licenses to the polluting sources, including sewage treatment plants. For more information, see “—Environmental Matters.”

State and federal water resource legislation establishes the charging of fees for the discharge of treated effluents into water bodies. This charge is already in effect in the majority of river basins. See “—Environmental Matters—Water Usage.”

### ***Lending Limits of Brazilian Financial Institutions***

CMN Resolution No. 4,589/17 dated as of June 29, 2017, which replaced CMN Resolution No. 2,827/2001 dated as of March 30, 2001, as amended, limits the amount that Brazilian financial institutions may lend to public sector companies, such as us. Financing of projects which are put up for international bid and any financing in *reais* provided to the Brazilian counterpart of such international bids are excluded from these limits.

### ***Scope of Business***

State Law No. 12,292/2006, dated as of March 2, 2006, and amended State Law No. 119/1973, dated as of June 29, 1973, which created our Company, authorizes us to provide water and sewage services outside the state of São Paulo (in other states of Brazil and other countries). This law also authorizes us to own interests in other public or private-public companies and Brazilian or international consortia. In addition, this law permits us to incorporate subsidiaries and enter into a partnership with or acquire interests in a private company with a corporate purpose related to the sanitation business.

In connection with the scope of our services, State Supplementary Law No 1.025/2007 amended State Law No. 119/1973 and expanded the range of services that we can render, with the inclusion of urban rainwater drainage and management, urban cleaning and solid waste management, as well as power generation, storage, conservation and sales activities, for our own or third-party use.

### **C. Organizational Structure**

Not applicable.

### **D. Property, Plant, Equipment, Intangible Assets and Contract Assets**

Our principal property, plant and equipment comprise administrative facilities which are stated at historical costs less depreciation. The reservoirs, water treatment facilities, water distribution networks consisting of water pipes, water transmission lines, water connections and water meters, sewage treatment facilities, and sewage collection networks consisting of sewer lines and sewage connections are recorded as contract assets and intangible assets (concession assets). As of December 31, 2019, we operated through 81,324 kilometers of water pipes and water transmission lines and 55,983 kilometers of sewer lines. As of the same date, we operated 253 water treatment facilities and 569 sewage treatment facilities (including eight ocean outfalls), as well as 16 water quality control laboratories.

As of December 31, 2019, the total net book value of our property, plant and equipment, intangible assets and contract assets (including concession assets) and contract assets was R\$40,257.6 million.

All of our material properties are located in the state of São Paulo.

### **ITEM 4A. UNRESOLVED STAFF COMMENTS**

Not applicable.

### **ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

The following management's discussion and analysis of financial condition and results of operations should be read in conjunction with our audited financial statements included elsewhere in this annual report. The financial statements included elsewhere in this annual report have been prepared in accordance with IFRS as issued by the IASB. This annual report contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those discussed in the forward-looking statements as a result of various factors, including, without limitation, those set forth in "Risk Factors."

In the following discussion, references to increases or decreases in any period are made by comparison with the corresponding prior period, except as the context otherwise indicates.

#### **A. Operating and Financial Review and Prospects**

##### **Overview**

As of December 31, 2019, we operated water and sewage systems in the state of São Paulo, including in the city of São Paulo, Brazil's largest city. Our operations extended into a total of 372 municipalities, or 58% of all municipalities in the state. We also provided water services on a wholesale basis to three municipalities located in the São Paulo metropolitan region in which we did not operate water distribution systems. In December 2018 and July 2019, we entered into agreements with the municipalities of Guarulhos and Santo André, respectively, and began operations in these municipalities for the direct supply of water and sewage services in January 2019 and August 2019, respectively.



The São Paulo metropolitan region, which includes the city of São Paulo, is our most important service region. With a total population of approximately 21.1 million, the São Paulo metropolitan region accounted for 73.4%, 72.2% and 70.7% of our operating revenue in 2019, 2018 and 2017 (excluding revenues relating to the construction of concession infrastructure), respectively. As of December 31, 2019, 65.4% of the concession intangible assets reflected on our balance sheet were located in this region. In an effort to respond to demand in the São Paulo metropolitan region, we have concentrated a major portion of our capital expenditure program to expand the water and sewage systems and to increase and protect water sources in this region. Our capital expenditure program is our most significant liquidity and capital resource requirement.

### Factors Affecting Our Results of Operations

Our results of operations and financial condition are generally affected by our ability to raise tariffs, control costs and improve productivity, general economic conditions in Brazil and abroad, and extreme weather events.

In 2015, our business was significantly affected by the most severe drought recorded in our service area in the previous 80 years. During the rainy season that began in October 2015 and ended in March 2016, rainfall returned to its historical average, resulting in the level of water in the reservoirs that provide water to the population of the São Paulo metropolitan region returned to normal and the measures taken during the water crisis to continue to services consumers were gradually discontinued. 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 have been partially integrated into 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.

### Effects of Tariff Increases

Our results of operations and financial condition are highly dependent on tariff increases for our water and sewage services. Since the enactment of the Basic Sanitation Law in 2007, as a general rule, regulatory agencies are responsible for setting, adjusting and reviewing tariffs, taking into consideration, among other factors, the following:

- political considerations arising from our status as a State-controlled company;
- anti-inflation measures enacted by the federal government from time to time; and
- when necessary, the readjustment to maintain the original balance between each party's obligation and economic gain (*equilíbrio econômico-financeiro*) under the agreement.

Readjustment of our tariffs continues to be set annually and depend on the parameters established by the Basic Sanitation Law and ARSESP. The guidelines also establish procedural steps and the terms for annual adjustments. The annual adjustments must be announced 30 days prior to the effective date of the new tariffs. See "4.B. Business Overview—Tariffs."

The following table sets forth, for the years indicated, the percentage increase of our tariffs, as compared to three inflation indexes:

	Year ended December 31,		
	2019	2018	2017
Increase in average tariff <sup>(1)</sup>	4.72%	3.51%	7.89%
Inflation – IPC – FIPE	4.40%	3.02%	2.27%
Inflation – IPCA	4.31%	3.75%	2.95%
Inflation – IGP-M	7.30%	7.54%	(0.52)%

(1) See "Item 4.B. Business Overview—Tariffs" for addition information on tariff increases.

Sources: Central Bank, *Fundação Getulio Vargas*, or FGV, Instituto Brasileiro de Geografia e Estatística, or IBGE, and *Fundação Instituto de Pesquisas Econômicas*.

On April 9, 2020, ARSESP published a tariff readjustment of 2.4924%. Due to the approval of the state of public calamity resulting from the COVID-19 pandemic, ARSESP postponed this readjustment by 90 days. See "Item 4.B. Business Overview—Tariffs."

## *Effects of Brazilian Economic Conditions*

As a company with all of its operations in Brazil, our results of operations and financial condition are affected by general economic conditions in Brazil, particularly by the economic activity and the inflation rate. For example, the general performance of the Brazilian economy may affect our cost of capital and inflation may affect our costs and margins. The Brazilian economic environment has been characterized by significant variations in economic growth rates. However, as our product is viewed as essential, in normal conditions our sales revenue demonstrates stability.

### *General Economic Conditions*

In 2017, Brazilian GDP increased 1% in comparison with 2016. Brazil's trade surplus in 2017 was US\$67 billion and at year-end the country had US\$381.9 billion in currency reserves. The average unemployment rate in Brazil in 2017 was 12.7%, the highest rate ever recorded by IBGE.

In 2018, Brazilian GDP increased 1.1% in comparison with 2017. Brazil's trade surplus in 2018 was US\$58 billion and at year-end the country had US\$374.7 billion in currency reserves. The average unemployment rate in Brazil in 2018 was 12.3%.

In 2019, Brazilian GDP increased 1.1% in comparison with 2018. Brazil's trade surplus in 2019 was US\$ 46.6 billion and at year-end the country had US\$ 356.9 billion in currency reserves. The average unemployment rate in Brazil in 2019 was 11.9%.

The Brazilian Government had estimated a GDP growth of 2.1% for 2020. However, due to the COVID-19 pandemic, the Brazilian Government has already revised its estimate of GDP growth to 0.02%. For more information, see "Item 3.D Key Information—Risk Factors—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."

### *Interest Rates*

As a political monetary instrument of the federal government, the SELIC rate influences the behavior of other interest rates in the country, including the rates related indebtedness denominated in local currency. The SELIC rate has historically been high. However, a series of rate reductions in 2017, brought the SELIC rate down to 6.90% as of December 7, 2017, where it remained at year-end 2017. In 2018 the SELIC rate decreased to 6.40% and in 2019 the SELIC rate decreased to 4.40%. 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.

We have not contracted any derivative financial instruments or any hedging instruments to mitigate interest rate fluctuations.

### *Inflation*

Inflation affects our financial performance by increasing our costs of services rendered and operating expenses. Part of our *real*-denominated debt is directly indexed to take into account the effects of inflation. Additionally, we are exposed to the mismatch between the inflation adjustment indices of our loans and financing and those of our receivables. Water supply and sewage service tariffs do not necessarily follow the increases in inflation adjustment and interest rates affecting our debt. We cannot assure you that our tariffs will be increased, in future periods, to offset, in full or in part, the effects of inflation.

Inflation adjustments derive from collections from or payment to third parties, as contractually required by law or court decision, and are recognized on an accrual basis. Inflation adjustments included in these agreements and decisions are not considered embedded derivatives, since they are deemed as inflation adjustments for us. See Notes 3.19, 5.1 and 29 of the financial statements for the impacts of inflation adjustments on our financial performance and debt.

### *Currency Exchange Rates*

We had total foreign currency-denominated indebtedness of R\$6,358.8 million as of December 31, 2019, of which R\$1,881.9 million relates to the current portion of our long-term foreign currency-denominated obligations. In the event of significant devaluations of the *real* in relation to the U.S. dollar or other currencies, the cost of servicing our foreign currency-denominated obligations would increase as measured in *reais*, particularly as our tariff and other revenue is based solely in *reais*. In addition, any significant devaluation of the *real* will increase our financial expenses as a result of foreign exchange losses that we must record. In 2017, the 1.50% depreciation of the *real* against the dollar and the 5.38% depreciation of the *real* against the Yen led to a foreign exchange loss of R\$96.3 million. In 2018, the 17.1% depreciation of the *real* against the dollar and the 20.0% depreciation of the *real* against the Yen led to a foreign exchange loss of R\$915.9 million. In 2019, the 4.0% depreciation of the *real* against the dollar and the 5.3% depreciation of the *real* against the Yen led to a foreign exchange loss of R\$234.0 million. However, since most of our debt denominated in foreign currencies is long-term debt with a long amortization schedule, a devaluation of the *real* would principally impact cash flows regarding the current portion of our long-term debt.

We manage our indebtedness portfolio closely to decrease the cost of servicing our indebtedness as a whole and our exposure to exchange rate fluctuations. We do not have any exposure to derivatives tied to foreign currencies.

The following table shows the fluctuation of the *real* against the U.S. dollar, the period-end exchange rates and the average exchange rates as of or for the years indicated:

	Year ended December 31,		
	2019	2018	2017
	<i>(in reais, except percentages)</i>		
Depreciation (appreciation) of the <i>real</i> versus U.S. dollar <sup>(1)</sup>	4.02%	17.13%	1.50%
Period-end exchange rate – US\$1.00	4.0307	3,8748	3.3080
Average exchange rate – US\$1.00 <sup>(2)</sup>	4.1096	3.6558	3.1925

(1) Represents the comparison with period-end exchange rate. Source: Central Bank.

(2) Represents the average for period indicated.

The following table shows the fluctuation of the *real* against the Yen, the period-end exchange rates and the average exchange rates as of or for the years indicated:

	Year ended December 31,		
	2019	2018	2017
	<i>(in reais, except percentages)</i>		
Depreciation (appreciation) of the <i>real</i> versus Yen <sup>(1)</sup>	5.33%	19.97%	5.38%
Period-end exchange rate – ¥1.00	0.0371	0.0353	0.0294
Average exchange rate – ¥1.0 <sup>(2)</sup>	0.0377	0.0331	0.0291

(1) Represents the comparison with period-end exchange rate. Source: Central Bank.

(2) Represents the average for period indicated.

During the years ended December 31, 2019, 2018 and 2017 we had no forward exchange transactions.

For further information on exchange rates, see “Item 3.D. Risk Factors—Risks Relating to Brazil—Exchange rate instability 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” and “Item 5.B. Liquidity and Capital Resources—Indebtedness Financing—Financial Covenants.”

### ***Effects of Extreme Weather Events***

The southeastern region of Brazil, particularly the southern region of the state of Minas Gerais, the PCJ River Basin (from which we extract the water used in the Cantareira System), and the northern area of the São Paulo metropolitan region, experienced below average rainfall from late 2012 throughout 2014 and most of 2015. During the October 2015 – March 2016 rainy season, the level of rainfall in the region returned to the normal levels expected for the period. Improved rainfall in the rainy season that began in October 2015, the collaborative efforts between us and the population we serve and emergency construction works conducted by us throughout 2014 and 2015 to combat the water crisis, resulted in a partial restoration of the water levels of the Cantareira system.

As of December 31, 2019, the reservoirs in the São Paulo metropolitan region, where our largest market is located, contained 1.1 billion m<sup>3</sup> of water storage for treatment, compared to 943.3 million m<sup>3</sup> available for treatment as of December 31, 2018. The measurements for these years do not include the technical reserve of 287.5 million m<sup>3</sup>. In December 2019, this system served 7 million residents, compared to 8.9 million in February 2014, the last month before the water crisis started.

In order to balance supply and demand despite restricted water availability, we adopted a series of measures from February 2014 until April 2016. With the return of the rainfall to its historical average for the rainy season that began in October 2015 and ended in March 2016, the level of water in the reservoirs that provide water to the population of the São Paulo metropolitan region returned to normal and the measures taken during the water crisis to continue to services consumers were gradually discontinued. 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 have been partially integrated into our consumers’ daily habits. As a result, despite our reservoirs having a higher volume of water available for treatment, the total volume of water billed to our clients did not return to the volume of water billed 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. For more information, see “Item 3.D. Risk Factors—Risks Relating to Our Business— 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” and “Item 4.B. Business Overview—The 2014-2015 Water Crisis.”

## **Critical Accounting Estimates and Judgments**

We make estimates and judgments concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and judgments that have a significant risk of causing material adjustment to the carrying amount of our assets and liabilities within the next financial year are mentioned below.

### ***Allowance for Doubtful Accounts***

We establish an allowance for doubtful accounts in an amount that our management considers sufficient to cover expected losses, based on an analysis of trade receivables, in accordance with the accounting policy stated in Note 3.4 to our financial statements as of December 31, 2019 and 2018 and for the years ended December 31, 2019, 2018 and 2017. Bad debt expense, net of recoveries, is included in selling expenses, and was R\$128.1 million, R\$166.7 million and R\$82.7 million for the years ended December 31, 2019, 2018 and 2017, respectively.

The methodology for determining the allowance for doubtful accounts requires significant estimates, considering a number of factors, including historical collection experience, current economic trends, expected future losses, the aging of the trade receivables portfolio, recoveries of previously written off receivables and other factors. Actual results could differ from those estimates.

### ***Intangible Assets Arising from Concession and Program Contracts***

As of December 31, 2019, we had intangible assets of R\$32,325.4 million and contract assets of R\$7,617.7 million.

We recognize intangible assets arising from concession contracts under IFRIC 12. We estimate the fair value of construction and other work on the infrastructure to recognize the cost of the intangible asset, which is recognized when the infrastructure is built and provided that it will generate future economic benefits. The great majority of our contracts for service concession arrangements entered into with each grantor is under service concession agreements in which we have the right to receive, at the end of the contract, a payment equivalent to the asset balance of the concession intangible asset, which in this case, is amortized over the useful life of the underlying physical assets; thus, at the end of the contract, the remaining value of the intangible would be equal to the residual value of the related physical asset.

The fair value of construction and other work on the infrastructure is recognized as revenue, at its fair value, when the infrastructure is built, provided that this work is expected to generate future economic benefits. The accounting policy for the recognition of construction revenue is described in Note 3.3 "Operating Revenue" to our financial statements.

Intangible assets related to concession agreements and program contracts, when there is no right to receive the residual value of the assets at the end of the contract, are amortized on a straight-line basis over the period of the contract or the useful life of the underlying asset, whichever is shorter.

Investments made and not recovered through rendering of services, within the terms of our agreement, must be indemnified by the concession grantor; (1) with cash or cash equivalents or also, in general, (2) with a contract extension. These investments are amortized over the useful life of the asset.

Law No. 11,445/2007 prescribes that, whenever possible, basic sanitation public utilities shall have their economic and financial sustainability ensured through the consideration received from service collection, preferably as tariffs and other public charges, which may be established for each service or both. Therefore, investments made and not recovered through these services, within the original term of the contract, are recorded as intangible assets and amortized over the useful life of the asset, taking into consideration a solid track record of concession renewal and, therefore, the continuity of services.

The recognition of fair value for the intangible assets arising on concession contracts is subject to assumptions and estimates, and the use of different assumptions could affect the carrying amounts of these assets. The amortization of intangible assets and estimated useful lives of the underlying assets also requires significant assumptions and estimates, which different assumptions and estimates, and changes in future circumstances, could affect amortization of intangible assets and remaining useful lives of the underlying assets and can have a significant impact on the results of operations.

### ***Provisions and Contingent Liabilities***

We are a party to a number of legal proceedings involving significant monetary claims. These legal proceedings include, among other types, disputes with customers and suppliers and tax, labor, civil, environmental and other proceedings. For a more detailed discussion of these legal proceedings, see Note 19 to our financial statements included in this annual report. We recognize provisions for legal proceedings in which our company has a present obligation as a result of past events (either due to an explicit agreement or duty, known as a legal obligation; or due to our past actions, known as a constructive obligation), it is probable that an outflow of resources embodying economic benefits will be necessary to settle the obligation and the amount of obligation can be estimated reliably. Therefore, we are required to make judgments regarding future events for which we often seek the advice of legal counsel. As a result of the significant judgment required in assessing and estimating these provisions, actual losses realized in future periods could differ significantly from our estimates and could exceed the amounts which we have provisioned.

As of December 31, 2019, we were party to judicial and administrative proceedings, relating to civil, environmental and tax matters, amounting to R\$1,035.8 million (after deducting court escrow deposits in the amount of R\$42.6 million) with respect to which we recognized provisions based on the criteria described above, as shown in Note 3.14 to our financial statements included in this annual report. As of the same date, the proceedings with respect to which we have contingent liabilities (i.e., no provisions have been recognized) totaled R\$44,035.0 million, of which we believe R\$34,601.5 million of those have a remote probability of an outflow of resources embodying economic benefits exists.

### ***Pension Benefits***

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include a discount rate and a mortality table. Any changes in these assumptions will impact the carrying amount of pension obligations.

We determine the appropriate discount rates at the end of each year, which is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. The discount rate was decreased from 4.84% in 2018 to 3.36% in 2019 under Plan G0 and from 4.91% in 2018 to 3.37% in 2019 under Plan G1 in order to follow the decrease in the rates applicable to the Brazilian Government NTN – B, long term notes, which term is similar to the duration of the pension benefits, as described in Notes 3.18 (a) and 20 (b) to our financial statements included in this annual report.

Other key assumptions for pension obligations are based in part on current market conditions. Additional information on the pension plans under Plan G0 and G1 is disclosed in Note 20 to our financial statements included in this annual report.

### ***Deferred income tax and social contribution***

We recognize and settle taxes on income based on the results of operations verified according to the Brazilian Corporate Law, taking into consideration the provisions of the tax laws. We recognize deferred tax assets and liabilities based on the differences between the accounting balances and the tax bases of assets and liabilities.

We regularly review the recoverability of deferred tax assets and do not recognize deferred tax assets if it is probable that these assets will not be realized, based on historic taxable income, the projection of future taxable income and the estimated period to reverse temporary differences. This process requires the use of estimates and assumptions. The use of different estimates and assumptions could result in the non-recognition of a significant amount of deferred tax assets.

As of December 31, 2019 and 2018, we have recognized R\$434.0 million and R\$261.2 million as deferred income tax liabilities and deferred income tax assets, respectively, in each case, net of the deferred tax assets and liabilities, as disclosed in Note 18 to our financial statements included in this annual report.

### **Certain Transactions with Controlling Shareholder**

#### ***Reimbursement Due from the State***

Reimbursement due from the State for pensions paid represent supplementary pensions (Plan G0) that we pay, on behalf of the State, to former employees of State-owned companies which merged to form our company. These amounts must be reimbursed to us by the State, as primary obligor.

In November 2008, we entered into the third amendment to the agreement with the State relating to payments of pension benefits made by us on its behalf. The State acknowledged that it owed us an outstanding balance of R\$915.3 million as of September 30, 2008, relating to payments of pension benefits made by us on its behalf. We provisionally accepted, but it is not recognized in our books, the reservoirs in the Alto Tietê System as partial payment in the amount of R\$696.3 million, subject to the transfer of the property rights of these reservoirs to us. See Note 10 to our financial statements included in this annual report and “Item 7. Major Shareholders and Related Party Transactions.”

On March 18, 2015, we, the State and DAEE, with the intervention of the Department of Sanitation and Water Resources, executed an agreement in the amount of R\$1,012.3 million, consisting of R\$696.3 million in principal amount and R\$316.0 million in monetary adjustment of the principal through February 2015. For detailed information on this agreement, see “Item 7.B. Related Party Transactions—Agreements with the State” and Note 10(a)(iv) to our financial statements included in this annual report.

As of December 31, 2019 and 2018, the amounts not recognized related to pension benefits paid by us on behalf of the State totaled R\$1,195.3 million and R\$1,107.1 million respectively. As a result, we also recognized the obligation related to pension benefits, maintained with the beneficiaries and pensioners of Plan G0. As of December 31, 2019 and 2018, the pension benefit obligations of Plan G0 totaled R\$3,046.3 million and R\$2,606.1 million, respectively. For detailed information on the pension benefit obligations refer to Note 20 to our financial statements included in this annual report.

#### ***Accounts Receivable from the State for Water and Sewage Services Rendered***

Certain of these accounts receivable have been overdue for a long period. We have entered into agreements with the State with respect to these accounts receivable. For further information on these agreements, see Note 10 to our financial statements included in this annual report and “Item 7. Major Shareholders and Related Party Transactions.”

#### ***Use of Guarapiranga and Billings reservoirs***

We withdraw water for use in the São Paulo metropolitan region from the Guarapiranga and Billings reservoirs. 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.

The settlement agreement requires us to make certain installment payments to EMAE in settlement of the claim for compensation for our capture and use of the water, as well as apportionment of the maintenance, operation and monitoring costs for the reservoirs. See “Item 7. Major Shareholders and Related Party Transactions” and See Note 10(b) to our financial statements included in this annual report.

#### **Results of Operations**

The following table sets forth, for the years indicated, certain items from our income statements of operations, each expressed as a percentage of net operating revenue:

	<b>Year ended December 31,</b>					
	<b>2019</b>		<b>2018</b>		<b>2017</b>	
	<i>(in millions of reais, except percentages)</i>					
Net operating revenue	17,983.7	100.0%	16,085.1	100.0%	14,608.2	100.0%
Cost of services	(10,137.7)	(56.4)%	(9,086.5)	(56.5)%	(8,778.9)	(60.1)%
Gross profit	7,846.0	43.6%	6,998.6	43.5%	5,829.3	39.9%
Selling expenses	(803.4)	(4.5)%	(693.5)	(4.3)%	(768.7)	(5.3)%
Allowance for doubtful accounts (*)	(128.1)	(0.7)%	(166.7)	(1.0)%	(82.7)	(0.6)%
Administrative income (expenses)	(1,187.9)	(6.6)%	(996.9)	(6.2)%	(1,099.0)	(7.5)%
Other operating income (expenses), net and equity results of investments in affiliates	(15.0)	(0.1)%	35.1	0.2%	0.1	0.0%
Profit from operations before finance income (expenses) and income tax and social contribution	5,711.6	31.8%	5,176.6	32.2%	3,961.7	27.1%
Financial income (expenses), net	(1,033.7)	(5.7)%	(1,264.3)	(7.9)%	(458.1)	(3.1)%
Profit before income tax and social contribution	4,677.9	26.0%	3,912.3	24.3%	3,503.6	24.0%
Income tax and social contribution	(1,310.4)	(7.3)%	(1,077.2)	(6.7)%	(984.3)	(6.7)%
Profit for the year	3,367.5	18.7%	2,835.1	17.6%	2,519.3	17.2%

#### ***Year Ended December 31, 2019 Compared to Year Ended December 31, 2018***

##### ***Net operating revenue***

Net operating revenue increased by R\$1,898.6 million, or 11.8%, to R\$17,983.7 million in 2019 from R\$16,085.1 million in 2018. As of December 31, 2019, net operating revenue, excluding construction revenue, increased by R\$1,754.7 million or 13.2%, to R\$15,037.1 million in 2019 from R\$13,282.4 million in 2018. Our construction revenue was R\$2,946.6 million in 2019 and R\$2,802.7 million in 2018. The main factors that led to the increase were:

- tariff repositioning index of 3.5% since June 2018;
- tariff adjustment index of 4.7% since May 2019;
- increase of 2.7% in our total billed volume (2.4% in water and 3.1% in sewage); and

- formalization of the agreement with the municipality of Santo André in 2019, representing an increase of R\$1,357.3 million in operating revenue.

These increases were partially off-set by a R\$533.7 million decrease in revenues as result of the agreement signed with the municipality of Guarulhos in 2018 which had the effect of increasing revenues in 2018 by approximately R\$900 million without having the corresponding effect in 2019.

### ***Cost of services***

Our cost of services increased by R\$1,051.2 million, or 11.6%, to R\$10,137.7 million in 2019 from R\$9,086.5 million in 2018. As a percentage of net operating revenue, cost of services decreased to 56.4% in 2019 from 56.5% in 2018.

The increase in cost of services was principally due to the following factors:

- an increase of R\$383.3 million in depreciation and amortization, due to the conclusion of the construction of intangible concession assets;
- an increase of R\$254.4 million in the cost of services, due to several factors, mainly: (i) an increase of R\$62.1 million in costs for the maintenance of water and sewage networks and connections; (ii) R\$57.3 million in expenses with employees assigned to the municipality of Guarulhos; (iii) R\$23.9 million in labor expenses, related to the start of operations in the municipality of Santo André; (iv) R\$17.9 million costs in relation to the paving and replacement of sidewalks; and (v) R\$17.9 million in costs related to maintenance of water and sewage systems;
- an increase of R\$183.3 million in the cost of electricity, mainly due to: (i) an average decrease of 3.2% in free market tariffs, with a 5.9% decrease in consumption; (ii) an average increase of 11.1% in regulated market tariffs, with a 10.3% increase in consumption. The increase in consumption in 2019 was largely driven by the start of operations at the Jaguari-Atibainha Interconnection and the São Lourenço Production System, as well as the start of operations in the municipality of Guarulhos;
- an increase in construction revenue by R\$141.7 million mainly due to an increase in investments in assets in 2019; and
- an increase in treatment materials of R\$45.2 million, mainly due to higher use of alkalines and coagulants in water treatment;

### ***Gross Profit***

As a result of the factors discussed above, gross profit for the year ended December 31, 2019 increased by R\$847.4 million, or 12.1 %, to R\$7,846.0 million in 2019 from R\$6,998.6 million in 2018. As a percentage of net operating revenue, our gross profit margin increased to 43.6% in 2019 from 43.5% in 2018.

### ***Selling Expenses***

Selling expenses increased by R\$109.9 million, or 15.8%, to R\$803.4 million in 2019 from R\$693.5 million in 2018. As a percentage of net operating revenue, selling expenses increased to 4.5% in 2019 from 4.3% in 2018. The increase in selling expenses was primarily due to:

- an increase of R\$86.7 million in expenses with services, mainly due to an increase: (i) in expenses related to the reading of hydrometers and the delivery of bills, in the amount of R\$32.5 million; (ii) of R\$25.7 million in customer service expenses; and (iii) in expenses for the hiring of credit recovery services in the amount of R\$24.3 million; and
- an increase of R\$20.3 million in general expenses, due to an increase in expenses related to the collection of bills from certain banks.

### ***Allowance for Doubtful Accounts***

Our allowance for doubtful accounts decreased by R\$38.6 million, or 23.2%, to R\$128.1 million from R\$166.7 million, mainly due to the higher recovery of doubtful accounts as a result of the agreements signed in 2019, net of the defaults recorded in the period.

### ***Administrative Income (Expenses)***

Administrative expenses increased by R\$191.0 million, or 19.2% to R\$1,187,9 million in 2019 from R\$996.9 million in 2018, mainly due to (i) higher provisions for lawsuits in 2019, in the amount of R\$88.8 million; and (ii) expenses related to the conclusion of lawsuits, in the amount of R\$85.4 million, resulting from the signing of agreements with the municipalities of São Bernardo do Campo and Guarujá, in the amounts of R\$39.0 million and R\$46.4 million, respectively.

### ***Other Operating Income (Expenses), Net and Equity in Results of Investments in Affiliates***

Other operating expense, net were R\$15.0 million in 2019 compared with R\$35.1 million operating income, net in 2018.

Other operating income, net consists of gains and losses from sales of property, plant and equipment, sale of contracts awarded in public bids, right to sell electricity, indemnities and reimbursement of expenses, fines and collaterals, property leases, reuse of water, PURA projects and services.

Other operating expenses consist mainly of write-offs of concessions assets due to obsolescence, discontinued construction works, unproductive wells, projects considered economically unfeasible, losses on property, plant and equipment and exceeding cost of electricity sold.

Other operating expenses increased by R\$50.1 million, mainly due to:

- a decrease of R\$20.1 million in other operating revenues, mainly due to: (i) the non-recurring revenue from property expropriation in 2018, in the amount of R\$8.1 million; and (ii) higher receipt of funds from the River Basin Depollution Program in 2018, in the amount of R\$6.2 million; and
- an increase in the write-off of obsolete items in 2019, totaling R\$15.6 million.

### ***Financial Income (Expenses), Net***

Financial income (expenses), net consists primarily of interest on our indebtedness and foreign exchange losses (or gains) in respect of our indebtedness, offset partially by interest income on cash and cash equivalents and inflation based indexation accruals, mainly relating to agreements entered into with certain customers to settle overdue trade receivables.

Financial income (expenses), net decreased by R\$230.6 million to a financial expense, net of R\$1,033.7 million in 2019 from a financial expense, net of R\$1,264.3 million in 2018. As a percentage of net operating revenues, financial expense amounted to 5.7% in 2019 compared with a financial expense of 7.9% in 2018. This variation was due to:

- a decrease of R\$681.9 million in exchange rate variations on loans and financings, as a result of the lower appreciation of the U.S. dollar and Japanese Yen against the *Real* in 2019 (4.0% and 5.3%, respectively), when compared to the amounts recorded in 2018 (17.1% and 20.0%, respectively);
- an increase of R\$282.7 million in other financial expenses, mainly due to: (i) a R\$128.3 million increase in interest recognition in 2019, as a result of the definitive start of the São Lourenço Production System, in July 2018; and (ii) higher recognition of interest on lawsuits, in the amount of R\$127.9 million; and
- an increase of R\$111.2 million in other monetary variations, as a result of: (i) monetary variation on the liabilities of the São Lourenço Production System, in the amount of R\$53.1 million; and (ii) higher monetary variation on lawsuits, in the amount of R\$48.8 million.

### ***Profit before income tax and social contribution***

As a result of the factors discussed above, profit before income tax and social contribution increased by R\$765.6 million, to R\$4,677.9 million in 2019 from R\$3,912.3 million in 2018. As a percentage of net operating revenue, our profit before income tax and social contribution increased to 26.0% in 2019 compared to 24.3% in 2018.

### ***Income Tax and Social Contribution***

Income tax and social contribution expense increased by R\$233.2 million to R\$1,310.4 million in 2019 from R\$1,077.2 million in 2018. This increase was mainly due to the agreement with the municipality of Santo André and the reduction in expenses from exchange variations.

### ***Profit for the year***

As a result of the factors discussed above, our profit for the year increased to R\$3,367.5 million in 2019 from R\$2,835.1 million in 2018. As a percentage of net operating revenue, our profit for the year increased to 18.7% in 2019 from 17.6% in 2018.



## ***Year Ended December 31, 2018 Compared to Year Ended December 31, 2017***

### ***Net operating revenue***

Net operating revenue increased by R\$1,476.9 million, or 10.1%, to R\$16,085.1 million in 2018 from R\$14,608.2 million in 2017. These variations were principally due to:

- an increase of 7.9% in tariffs since November 2017 (tariff repositioning);
- an increase of 3.5% in tariffs since June 2018 (tariff repositioning);
- an increase of 1.5% in our total billed volume (1.5% in water and 1.5% in sewage); and
- formalization of the agreement with the municipality of Guarulhos in 2018, representing an increase of R\$800.0 million in operating revenue.

Construction revenue decreased by R\$348.20 million, or 11.1%, to R\$2,802.7 million in 2018 from R\$3,150.9 million in 2017. See Note 3.3(b) to our financial statements included in this annual report for a description of the accounting policies applicable to our construction services business.

### ***Cost of services***

Our cost of services increased by R\$307.6 million, or 3.5%, to R\$9,086.5 million in 2018 from R\$8,778.9 million in 2017. As a percentage of net operating revenue, cost of services decreased to 56.5% in 2018 from 60.1% in 2017.

The increase in cost of services was principally due to the following factors:

- an increase of R\$162.5 million in the cost of electricity, mainly due to: (i) an average increase of 7.3% in the free market tariffs, with a 3.6% increase in consumption; (ii) an average increase of 4.9% in the Tariff for the Use of Distribution System (TUSD), with a 13.5% increase in consumption; and (iii) an average increase of 10.4% in the regulated market tariffs, without any relevant consumption variations;
- an increase of R\$139.4 million in the cost of services, due to several factors, mainly: (i) an increase of R\$34.9 million in the costs related to maintenance of water and sewage systems; and (ii) a higher cost associated with the hiring of technical services, in the amount of R\$25.3 million;
- an increase of R\$94.7 million in salaries and payroll charges and Pension plan obligations mainly due to: (i) an increase of R\$156.2 million due to the provision for those who joined the Knowledge Retention Program (*Programa de Retenção do Conhecimento – PRC*), launched in 2018, aiming to mitigate the impact of the exit of employees who possess strategic knowledge acquired throughout their career; and (ii) an increase of R\$71.9 million in expenses related to health insurance. These increases were partially offset by the reversal of R\$136.5 million in the Provision for the Consent Decree (*Termo de Ajustamento de Conduta – TAC*), related to the employees who joined the PRC;
- an increase of R\$102.7 million in depreciation and amortization, arising from entry into operation of intangible assets; and
- an increase of R\$97.3 million in general expenses, mainly due to the following factors: (i) higher provision for the Municipal Fund for Environmental Sanitation and Infrastructure, in the amount of R\$53.0 million, as a result of the increase in revenues generated from the municipality of São Paulo; and (ii) higher charges for the use of water, in the amount of R\$39.0 million, related to the complementary payments made between 2014 and 2016, due to the signing of an Agreement between us and the Alto Tietê Hydrographic Basin Agency Foundation (*Fundação Agência Bacia Hidrográfica Alto Tietê – FABHAT*) in 2018.

The increase was partially offset by the decrease of R\$340.9 million in construction costs, due to the higher amount used in the construction of assets within the municipalities operated in 2017, mainly in the São Lourenço Production System.

### ***Gross Profit***

As a result of the factors discussed above, gross profit for the year ended December 31, 2018 increased by R\$1,169.3 million, or 20.1 %, to R\$6,998.6 million in 2018 from R\$5,829.3 million in 2017. As a percentage of net operating revenue, gross profit margin increased to 43.5% in 2018 from 39.9% in 2017.

### ***Selling Expenses***

Selling expenses increased by R\$7.5 million, or 1.1%, to R\$693.5 million in 2018 from R\$686.0 million in 2017. As a percentage of net operating revenue, selling expenses decreased to 4.3% in 2018 from 4.7% in 2017. The increase in selling expenses was primarily due to:

- an increase of R\$15.2 million in expenses with services, mainly due to an increase in expenses related to the hiring of credit recovery services and technical services, in the amounts of R\$6.5 million and R\$5.8 million, respectively;
- an increase of R\$8.1 million in general expenses, due to the increase in the collection of bills from certain banks;
- an increase of R\$1.9 million in material expenses, mainly due to the consumption of fuels and lubricants.

The increase in selling expenses was partially offset by the decrease of R\$19.8 million in salaries and expenses, mainly due to the migration of employees whose termination amounts were provisioned in the Provision for Consent Decree (*Termo de Ajustamento de Conduta - TAC*), who joined the Knowledge Retention Program - PRC, generating a reduction of R\$17.0 million in total expenses with these provisions.

### ***Allowance for Doubtful Accounts***

Increase of R\$84.0 million, mainly due to the higher recovery of amounts in 2017, totaling R\$77.8 million.

### ***Administrative Expenses***

Administrative expenses increased by R\$102.1 million, to R\$996.9 million in 2018 from R\$1,099.0 million in 2017, mainly due to lower provisioning of legal expenses.

### ***Other Operating Income (Expenses), Net and Equity Results of Investments in Affiliates***

Other operating income, net was R\$35.1 million in 2018 compared with R\$0.1 million operating income, net in 2017.

Other operating income, net consists of gains and losses from sales of property, plant and equipment, sale of contracts awarded in public bids, right to sell electricity, indemnities and reimbursement of expenses, fines and collaterals, property leases, reuse of water, PURA projects and services.

Other operating expenses consist mainly of write-offs of concessions assets due to obsolescence, discontinued construction works, unproductive wells, projects considered economically unfeasible, losses on property, plant and equipment and exceeding cost of electricity sold.

Other operating income increased by R\$35.0 million, mainly influenced by the write-offs of obsolete goods in 2017, in the amount of R\$15.1 million, and increase in amounts received from the Hydrographic Basin Depollution Program, in the amount of R\$11.2 million, due to the accomplishment of goals related to the program.

### ***Financial Income (Expenses), Net***

Financial income (expenses), net consists primarily of interest on our indebtedness and foreign exchange losses (or gains) in respect to our indebtedness, offset partially by interest income on cash and cash equivalents and inflation based indexation accruals, mainly relating to agreements entered into with some customers to settle overdue trade receivables.

Financial income (expenses), net increased by R\$806.2 million to a financial expense, net of R\$1,264.3 million in 2018 from a financial expense, net of R\$458.1 million in 2017. As a percentage of net operating revenues, financial expense amounted to 7.9% in 2018 compared to financial expenses of 3.1% in 2017. The variation was due to:

- an increase of R\$819.5 million in exchange rate variations on loans and financings, due to a higher appreciation of the U.S. dollar and the Yen against the real in 2018 (17.1% and 20.0%, respectively), compared to an appreciation in 2017 of 1.5% and 5.3%, respectively.

### ***Profit before income tax and social contribution***

As a result of the factors discussed above, profit before income tax and social contribution increased by R\$408.7 million, to R\$3,912.3 million in 2018 from R\$3,503.6 million in 2017. As a percentage of net operating revenue, our profit before income tax and social contribution increased to 24.3% in 2018 compared to 24.0% in 2017.

## ***Income Tax and Social Contribution***

Income tax and social contribution expense increased by R\$92.9 million to R\$1,077.2 million in 2018 from R\$984.3 million in 2017. This increase was mainly due to the increase in operating revenues, partially off-set by higher electricity and service costs, as well as the increase in expenses for exchange rate variations, due to the higher appreciation of the U.S. dollar and the Yen against the *real* in 2018 mentioned above.

## ***Profit for the year***

As a result of the factors discussed above, our profit for the year increased to R\$2,835.1 million in 2018 from R\$2,519.3 million in 2017. As a percentage of net operating revenue, our profit for the year increased to 17.6% in 2018 from 17.2% in 2017.

## **B. Liquidity and Capital Resources**

### **Capital Sources**

In order to satisfy our liquidity and capital requirements, we have primarily relied on cash provided by operating activities, long-term borrowings from Brazilian federal governmental financial institutions, and long-term financing from multilateral organizations and from domestic and international development banks, and also from capital markets. As of December 31, 2019, we had R\$2,253.2 million in cash and cash equivalents. The outstanding current indebtedness was R\$2,859.8 million as of December 31, 2019, of which R\$1,881.9 million was denominated in foreign currency. Long-term indebtedness was R\$10,384.9 million as of December 31, 2019, of which R\$4,476.9 million consisted of foreign currency-denominated obligations.

Our management expects that with the decrease in defaults as a result of us having entered into contract with the municipalities of Guarulhos and Santo André, improved water security due to the works carried out, and the generation of operating cash and availability of credit lines for investments, we will have sufficient funds to meet our commitments and not compromise our planned investments.

On March 22, 2020, the São Paulo State Government decreed a quarantine throughout the State, restricting activities in order to avoid the accelerated spread of COVID-19. Accordingly, our revenues in the commercial and public segments may be negatively impacted as result of the reduction in activity. On the other hand, consumption in the residential segment may increase as a result of these measures. The trend in the industrial segment is unclear, since there are segments that will increase production and, therefore, increase their demand for water, while others will have to reduce it.

In order to finance the constant investment needs in our infrastructure, we use third party funds to complement our own resources. The impacts of COVID-19 in attracting borrowings and financings is still uncertain, however, we believe that we currently have sufficient sources of funds to implement our short and medium term strategy.

### **Cash Flows**

#### ***Net Cash Generated from Operating Activities***

Cash generated from operating activities is the single largest source of our liquidity and capital resources, and we expect that it will continue to be so in the future. Our net cash generated from operating activities was R\$4,197.2 million, R\$3,842.9 million and R\$3,301.9 million in 2019, 2018 and 2017, respectively. The main driver of our cash flow from operating activities relates to our cash collections from customers, which is due to the nature of our business and to the fact that we are expanding our infrastructure. The increase in net cash generated in 2019 is principally due to the increase of 2.7% in our total billed volume (2.4% in water and 3.1% in sewage). This increase was partially offset by the income tax and social contribution paid in 2019.

#### ***Net Cash Used in Investing Activities***

Net cash used in investing activities was R\$3,267.3 million, R\$2,189.3 million and R\$1,971.4 million in 2019, 2018 and 2017, respectively. The main driver of our net cash outflow for investing activities relates to purchases of intangible assets, as required under our concession and program contracts, which is due to the fact that we are expanding our infrastructure and service coverage. Although we invested the amount of R\$1,336.9 million related to agreement with the municipality of Santo André, that did not impact our cash flow in 2019.

#### ***Net Cash Used in Financing Activities***

Our net cash used in financing activities was R\$1,705.9 million, R\$907.5 million and R\$933.6 million in 2019, 2018 and 2017, respectively. The main driver of our cash flows from financing activities relates to the proceeds and repayments of loans used to finance purchases of intangible assets related to our concession and program contracts, in order to support the expansion of our services and our payment of interest on shareholders' equity and the definitive start of the São Lourenço Production System, in July 2018, increasing the interest recognition in 2019.

## Indebtedness Financing

Our total financial indebtedness increased by 0.7%, from R\$13,152.8 million as of December 31, 2018 to R\$13,244.7 million as of December 31, 2019. In addition, during the same period, our total indebtedness denominated in foreign currency decreased by 4.7%, from R\$6,669.4 million as of December 31, 2018 to R\$6,358.8 million as of December 31, 2019.

As of December 31, 2019, we had R\$10,384.9 million in long-term indebtedness outstanding (excluding the current indebtedness), of which R\$4,476.9 million consisted of foreign currency-denominated long-term debt. We had an outstanding current indebtedness of R\$2,859.8 million as of December 31, 2019. As of December 31, 2019, R\$1,881.9 million of this current portion of long-term indebtedness was denominated in foreign currency. As of December 31, 2019, our S&P domestic rating was brAAA and our S&P global rating was BB-. Our Moody's national rating was Aa2.br and our Moody's global rating was Ba2 as of December 31, 2019, while our Fitch national rating was AA(bra) and our Fitch global rating was BB, as of the same date.

Various contractual agreements we have entered into, including certain financing agreements with *Caixa Econômica Federal* and BNDES, provide for liens over a portion of our cash flows from the payment of water and sewage provision tariffs. In addition, we provide as guarantees a portion of our cash flow generation to transactions related to PPPs.

Pursuant to these agreements, cash received from operations is required to pass through designated accounts. In the event of a default under the relevant agreement, such cash and future cash flows that are required to be deposited in such accounts become restricted and are subject to security interests in favor of the relevant creditor. As of December 31, 2019, a substantial portion of our monthly cash flows from operations was subject to these liens. As of that date, the total amount of our secured debt, including indebtedness benefiting from these liens, was R\$4,781.0 million (R\$4,741.1 million of principal and R\$39.9 million related to interest and charges). See “—Indebtedness Financing—Financial Covenants—Local currency denominated indebtedness” and Note 16 to our financial statements included in this annual report. The following table sets forth information on our indebtedness outstanding as of December 31, 2019:

	<b>December 31, 2019</b>				
	<b>Current</b>	<b>Noncurrent</b>	<b>Total</b>	<b>Final Maturity</b>	<b>Interest Rates*</b>
	<i>(in thousands of R\$)</i>				
<b>Denominated in local currency:</b>					
10 <sup>th</sup> issue of debentures	41,021	-	41,021	2020	TJLP + 1.92% (1 <sup>st</sup> & 3 <sup>rd</sup> series) & IPCA + 9.53% (2 <sup>nd</sup> series)
12 <sup>th</sup> issue of debentures	45,450	203,829	249,279	2025	TR + 9.5%
14 <sup>th</sup> issue of debentures	41,940	63,012	104,952	2022	TJLP + 1.92% (1 <sup>st</sup> & 3 <sup>rd</sup> series) & IPCA + 9.19% (2 <sup>nd</sup> series)
17 <sup>th</sup> issue of debentures	289,211	263,226	552,437	2023	CDI + 0.75% (1 <sup>st</sup> series) & IPCA + 4.5% (2 <sup>nd</sup> series) & IPCA + 4.75% (3 <sup>rd</sup> series)
18 <sup>th</sup> issue of debentures	34,239	133,679	167,918	2024	TJLP + 1.92% (1 <sup>st</sup> and 3 <sup>rd</sup> series) & IPCA + 8.25% (2 <sup>nd</sup> series)
21 <sup>st</sup> issue of debentures	150,000	349,660	499,660	2022	CDI + 0.60% (1 <sup>st</sup> series) & CDI + 0.90% (2 <sup>nd</sup> series)
22 <sup>nd</sup> issue of debentures	-	765,689	765,689	2025	CDI + 0.58% (1 <sup>st</sup> series) & CDI + 0.90% (2 <sup>nd</sup> series) & IPCA + 6.00% (3 <sup>rd</sup> series)
23 <sup>rd</sup> issue of debentures	-	864,603	864,603	2027	CDI + 0.63% (1 <sup>st</sup> series) & CDI + 0.49% (2 <sup>nd</sup> series)
24 <sup>th</sup> issue of debentures	-	395,855	395,855	2029	IPCA + 3.20% (1 <sup>st</sup> series) & IPCA + 3.37% (2 <sup>nd</sup> series)
<i>Caixa Econômica Federal</i>	83,519	1,341,660	1,425,179	2020/2039	TR + 5% to 9.5%
National Bank for Economic and Social Development (BNDES) PAC	11,184	27,854	39,038	2023	2.5% + TJLP
National Bank for Economic and Social Development (BNDES) PAC II 9751	6,990	40,685	47,675	2027	2.15% + TJLP
National Bank for Economic and Social Development (BNDES) PAC II 9752	3,913	24,457	28,370	2027	1.72% + TJLP
National Bank for Economic and Social Development (BNDES) Onda Limpa	23,704	100,582	124,286	2025	1.72% + TJLP

December 31, 2019

	Current	Noncurrent	Total	Final Maturity	Interest Rates* (in thousands of R\$)
<b>Denominated in local currency:</b>					
National Bank for Economic and Social Development (BNDES) Tietê III	52,874	383,191	436,065	2028	1.92% + TJLP
National Bank for Economic and Social Development (BNDES) 2015	31,712	460,646	492,358	2035	2.5% + TJLP
National Bank for Economic and Social Development (BNDES) 2014	4,659	25,411	30,070	2026	1.76% + TJLP
Leases	27,314	432,357	459,671	2035	7.73% to 10.12% + IPC
Leases (IFRS 16)	51,088	23,365	74,453	2023	6.01% to 9.84%
Other	1,665	8,207	9,872		TJLP + 1.5% (FINEP) & 3.0% (FEHIDRO)
Interest and others charges	77,460	-	77,460		
<b>Total denominated in local currency</b>	<b>977,943</b>	<b>5,907,968</b>	<b>6,885,911</b>		
<b>Denominated in foreign currency:</b>					
Inter-American Development Bank (IADB) US\$572,241,000 (2018 - US\$616,404,000)	170,051	2,121,438	2,291,489	2025 to 2035	3.31% to 3.42%
International Bank for Reconstruction and Development (IBRD) US\$88,871,000 (2018 - US\$91,286,000)	24,505	330,898	355,403	2034	2.85%
Eurobonds - US\$350,000,000 (2017 - US\$ 350,000,000)	1,409,921	-	1,409,921	2020	6.25%
JICA 15 - ¥ 11,524,300,000 (2018 - ¥ 13,829,160,000)	42,813	385,315	428,128	2029	1.8% & 2.5%
JICA 18 - ¥ 10,361,600,000 (2018 - ¥ 11,397,760,000)	38,493	346,237	384,730	2029	1.8% & 2.5%
JICA 17 - ¥ 2,830,420,000 (2018 - ¥ 1,826,957,000)	12,466	91,845	104,311	2035	1.2% & 0.01%
JICA 19 - ¥ 31,736,565,000 (2018 - ¥ 31,561,726,000)	67,372	1,109,644	1,177,016	2037	1.7% & 0.01%
IADB 1983AB - US\$ 40,769,000 (2018 - US\$ 58,462,000)	71,312	91,521	162,833	2023	LIBOR + 2.08% to 2.38%
Interest and others charges	44,967	-	44,967		
<b>Total denominated in foreign currency</b>	<b>1,881,900</b>	<b>4,476,898</b>	<b>6,358,798</b>		
<b>Total loans and financing</b>	<b>2,859,843</b>	<b>10,384,866</b>	<b>13,244,709</b>		

\* TR was 0.00% per month as of December 31, 2019; CDI stands for Interbank Deposit Rate (*Certificado de Depósitos Interbancários*), which was 4.40% per annum as of December 31, 2019; IGP-M was 7.30% per annum as of December 31, 2019; TJLP stands for Long-term Interest Rate (*Taxa de Juros a Longo Prazo*), published quarterly by the Central Bank, which was 5.57% per annum as of December 31, 2019; and USD LIBOR was 1.91 as of December 31, 2019.

The following table shows the maturity profile of our debt, as of December 31, 2019, for the period indicated:

	2020	2021	2022	2023	2024	After 2025	Total
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(in millions of reais)

Loans and financing	2,859.8	1,140.9	1,204.6	995.3	1,295.8	5,748.3	13,244.7
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Referring to all of our foreign currency-denominated indebtedness, the amount of R\$4.219.6 million, net of transaction costs, as of December 31, 2019 was denominated in U.S. dollars and R\$2.094.2 million was denominated in Japanese Yen. This indebtedness consisted principally of:

- R\$2,291.5 million (US\$572.2 million) in U.S. dollar denominated loans contracted with the Inter-American Development Bank, or the IADB, composed of the following:
  - one loan to finance the second phase of the Tietê Project in 2000, under which payments of principal are made in semiannual installments with final maturity in July 2025. The principal amount accrues interest at USD LIBOR plus a variable spread paid semiannually; and
  - one loan to finance the third phase of the Tietê Project in 2010, under which payments of principal are made in semiannual installments with final maturity in September 2035. The principal amount accrues interest at USD LIBOR plus a variable spread paid semiannually;
- R\$355.4 million (US\$88.9 million) in U.S. dollar denominated loans contracted with the IBRD which was entered into on October 28, 2009, amounting to US\$100.0 million, for the financing of the Water Source Program (*Programa Mananciais*), a program ended in 2017, which consisted of various projects that focused on the preservation and improvement of water sources in the metropolitan region of São Paulo. The loan matures in March 2034. Repayments of principal will be made in semiannual installments starting in September 2019 after a grace period of ten years. The principal amount accrues interest at USD LIBOR plus a variable spread, paid semiannually;
- R\$162.8 million (US\$40.8 million) in U.S. dollar denominated loans from the AB Loan financing contracted with the IADB in May 2008. Under this loan, payments of principal are made in annual installments with final maturity in May 2023. The principal amount accrues interest at USD LIBOR plus a rate varying from 2.08% to 2.38%, paid semiannually. The proceeds were used to repay an outstanding series of debt securities in connection with the implementation of our investment plan;
- R\$1,409.9 million (US\$350.0 million) in U.S. dollar denominated Eurobonds issued in December 2010 with an interest rate of 6.25%. The bonds pay interest semi-annually and mature in 2020. The proceeds from the offering were used to repay financial commitments throughout 2007 and 2011; and
- R\$2,094.2 million (¥56,452.9 million) in Japanese Yen denominated loans contracted with the JICA, composed of the following: (i) ¥11,524.3 million denominated loans contracted in August 2004 for the financing of the environmental recovery program for the Baixada Santista metropolitan region, called the Clean Wave Program (*Programa Onda Limpa*). Under these loans, the payments of principal are made in semi-annual installments with final maturity in August 2029. The principal amount accrues interest at a rate that varies from 1.8% to 2.5% per year, paid semiannually; (ii) ¥2,830.4 million in denominated loans contracted in October 2010 for the financing of the environmental improvement program in the basin of the Billings dam. The loan matures in October 2035, with repayments of principal made in semiannual installments. The principal amount accrues interest at a rate that varies from 0.01% to 1.2% per year, paid semiannually; (iii) ¥10,361.6 million denominated loans contracted in February 2011 to complement the financing for the first stage of the Clean Wave Program (*Programa Onda Limpa*), with commercial conditions similar to the loan entered into in August 2004. These funds were used for the provision of works and services in the Baixada Santista metropolitan region. The credit agreement expires in 18 years with final maturity in August 2029. The principal amount accrues interest at a rate that varies from 1.8% to 2.5% per year, paid semiannually; and (iv) ¥31,736.6 million denominated loan in February 2012 for the financing of the Program for Water Loss Reduction (*Programa de Redução de Perdas de Água*). The loan matures in February 2037. Repayments of principal will be made in semiannual installments starting in February 2019 after a grace period of seven years. The principal amount accrues interest at a rate that varies from 0.01% to 1.7% per year, paid semiannually.

Our borrowings from multilateral institutions and with Government Agency, such as the IADB, IBRD and JICA are guaranteed by the federal government, and have a counter-guarantee from the state of São Paulo. For further information on the terms of these loan agreements, see “Item 7.B. Related Party Transactions—Government Guarantees of Financing.”

Our outstanding domestic debt was R\$6,885.9 million as of December 31, 2019 and consisted primarily of *real*-denominated loans from federal and state-owned banks, in particular, *Caixa Econômica Federal* and BNDES, as well as debentures issued in November 2009, June 2010, February 2011, January 2013, October 2013, June 2014, June 2017, February 2018, May 2019 and July 2019, and financial leasing.

The following summarizes our principal borrowings from federal and State-owned banks:

- from 2003 to 2019, we entered into several financing agreements with *Caixa Econômica Federal*, pursuant to which repayments of principal are paid in up to in 60, 180 or 240 months in monthly installments commencing 30 days following the applicable grace period, which varies from 10 to 48 months from the date of signature of the line of credit agreement. The final maturity is 2042. The principal amount accrues interest from 5.0% to 8.0%. The financing agreements are collateralized (i) by the pledge of collections of monthly billings of water supply and sewage services up to three monthly installments until reaching the total amount of the debt, or (ii) by a monthly plan of billings corresponding to the minimum of three times the monthly charge, depending on the terms of the relevant financing agreement. As of December 31, 2019, the outstanding debt was R\$1,425.2 million;

- in May 2008, we entered into a R\$174.0 million financing agreement with BNDES. Repayments of the principal amount are being made in 150 successive monthly installments, with final maturity in 2023. The principal amount accrues interest at the TJLP, but limited to 6.0% per year, plus 2.15% per year. If the TJLP exceeds 6.0% per year, such excess will be added to the principal amount. The financing agreement is collateralized by part of the billings from the provision of water and sewage services. As of December 31, 2019, the outstanding debt was R\$39.0 million;
- in March 2010, we entered into a R\$294.3 million financing agreement with BNDES. Repayments of the principal amount are being made in 156 successive monthly installments, with final maturity in 2025. The principal amount accrues interest at the TJLP, but limited to 6.0% per year, plus 1.92% per year. If the TJLP exceeds 6.0% per year, such excess will be added to the principal amount. The financing agreement is collateralized by part of the billings from the provision of water and sewage services. As of December 31, 2019, the outstanding debt was R\$124.3 million;
- in 2011, we entered into financial leases in the total amount of R\$49.6 million with certain contractors for the construction of infrastructure on land we own. During the construction phase, we recognized a contract asset (as of December 31, 2018, with the adoption of IFRS 15 - Revenue from contract with customer, since 1 January 2018, assets related to concessions under construction, registered under the scope of IFRIC 12 - Concession Contracts, are classified as Contract Assets during the construction period and are transferred to Intangible Assets only after completion of the works. For more information, see Notes 3.3 (b) and 13 to our 2019 financial statements included in this annual report) and the related liability of the lease at fair value. Upon the conclusion of the construction, we began paying the rental of the infrastructure (in 240 installments) and the lease was updated accordingly to the contract. On August 31, 2013, SES Campo Limpo Paulista and Várzea Paulista started operations, and the corresponding amount as of December 31, 2014 was of R\$138,602 million. As of December 31, 2019, the outstanding debt was R\$459.6 million;
- in March 2012, we entered into a R\$180.8 million financing agreement with BNDES. Amortization of the principal amount is being made in up to 156 successive monthly installments, with the final maturity in 2027. The principal amount accrues interest at the TJLP but it is limited to 6.0% per year plus a yearly 1.72%. If the TJLP exceeds 6.0% per year, such excess will be added to the principal amount. This financing agreement is collateralized with a portion of the revenues from the provision of water and sewage services. As of December 31, 2019, the outstanding debt was R\$76.1 million;
- in February 2013, we entered into a R\$1.3 billion financing agreement with BNDES. Amortization of the principal amount is being made in up to 144 successive monthly installments with the final maturity in 2028. The principal amount accrues interest at the TJLP but is limited to 6.0% per year plus a yearly 1.66%. If the TJLP exceeds 6.0% per year, such excess will be added to the principal amount. This financing agreement is collateralized with a portion of the revenues from the provision of water and sewage services. As of December 31, 2019, the outstanding debt was R\$436.1 million;
- in June 2014, we entered into a R\$61.1 million financing agreement with BNDES. Amortization of the principal amount is being made in up to 108 successive monthly installments after the grace period of 36 months, with the final maturity in 2026. The principal amount accrues interest at the TJLP but is limited to 6.0% per year plus a yearly 1.76%. If the TJLP exceeds 6.0% per year, such excess will be added to the principal amount. This financing agreement is collateralized with a portion of the revenues from the provision of water and sewage services. As of December 31, 2019, the outstanding debt was R\$30.1 million;
- in June 2015, we entered into a R\$747.4 million financing agreement with BNDES. Amortization of the principal amount is being made in up to 204 successive monthly installments after the grace period of 36 months, with the final maturity in 2035. The principal amount accrues interest at the TJLP but is limited to 6.0% per year plus a yearly 2.18%. If the TJLP exceeds 6.0% per year, such excess will be added to the principal amount. This financing agreement is collateralized with a portion of the revenues from the provision of water and sewage services. As of December 31, 2019, the outstanding debt was R\$492.3 million; and
- in October 2015, we entered into a R\$48.3 million financing agreement with Funding Authority for Studies and Projects (*Financiadora de Estudos e Projetos*, or FINEP). Repayments of the principal amount shall be paid in up in 91 successive monthly installments after the grace period of 30 months, with the final maturity in 2025. The principal amount accrues interest at the TJLP, but it limited to 6.0% per year plus a yearly 1.5%. If TJLP exceeds 6% per year, such excess will be added to the principal amount. This financing agreement is collateralized with a portion of the revenues from the provision of water and sewage services. As of December 31, 2019, the outstanding debt was R\$9.9 million.

Under the BNDES program, we issued three tranches of debentures in the aggregate amount of R\$826.1 million. In November 2009, we issued our tenth tranche of debentures in the aggregate principal amount of R\$275.4 million. The debentures are divided in three series: the first and third series will mature in November 2020 and the second in December 2020. The debentures of the first and third series, in the aggregate principal amount of R\$77.1 million and R\$115.7 million, respectively, bear interest at 1.92% per year, plus the TJLP. If the TJLP exceeds 6.0% per year, such excess will be added to the principal amount. The debentures of the second series, in the aggregate principal amount of R\$82.6 million, bear interest at the rate of the IPCA index plus 9.53% per year. This issuance was entirely subscribed by BNDES. As of December 31, 2019, the outstanding debt of the tenth issuance of debentures is R\$41.0 million. In February 2011, we issued our fourteenth tranche of debentures, the second tranche out of those three, also subscribed exclusively by BNDES. These debentures are divided in three series: the first and third series will mature in February 2022 and the second, in March 2022. The debentures of the first and third series, in the aggregate principal amount of R\$77.1 million and R\$115.7 million, respectively, bear interest at 1.92% per year, plus the TJLP. If the TJLP exceeds 6.0% per year, such excess will be added to the principal amount. The debentures of the second series, in the aggregate principal amount of R\$82.6 million, bear interest at the rate of the IPCA index plus 9.20% per year. As of December 31, 2019, the outstanding debt of the fourteenth issuance of debentures is R\$104.9 million. In October 2013, we concluded our eighteenth issuance of debentures, the third tranche out of those three also subscribed exclusively by BNDES. These debentures are divided in three series: the first and third series will mature in October 2024 and the second, in November 2024. The debentures of the first and third series, in the aggregate principal amount of R\$77.1 million and R\$115.7 million, respectively, bear interest at 1.92% per year, plus the TJLP. If the TJLP exceeds 6.0% per year, such excess will be added to the principal amount. The debentures of the second series, in the aggregate principal amount of R\$82.6 million, bear interest at the rate of the IPCA index plus 8.26% per year. In December 2013, BNDES subscribed to the debentures of the first and second series. In December 2014 and July 2015, BNDES subscribed in part to the debentures of the third series and will subscribe to the other debentures of the third series in 2020. We have used the funds raised from the three issuances for investments primarily in the Program for Water Loss Reduction and on improvements and reforms of the Rio Grande's water treatment plant, including other projects for water supply and sewage collection systems in the São Paulo Northern Coast, Paraíba Valley and Mantiqueira Regions. As of December 31, 2019, the outstanding debt of the eighteenth issuance of debentures is R\$167.9 million.

In June 2010, we carried out our twelfth issuance of debentures, totaling R\$500 million, to the FGTS, based on the FGTS's program to finance companies in the sanitation, transport and real estate businesses. The debentures will mature in June 2025 and bear monthly interest based on the TR plus 9.5% per year. The proceeds of this issuance were used to fund a portion of our capital expenditure program in the water supply and sewage system. As of December 31, 2019, the outstanding debt of the twelfth issuance of debentures is R\$249.3 million.

In January 2013, we carried out our seventeenth issuance of debentures of R\$1.0 billion in three series, the first for R\$424.7 million with maturity date of January 2018 and with an interest rate of 0.75% per year plus the CDI rate, the second for R\$395.2 million with a maturity of January 2020 and with the interest rate of 4.50% per year plus IPCA variation and the third for R\$180.1 million with a maturity date of January 2023 and with an interest rate of 4.75% per year plus IPCA variation. The proceeds of this issuance were used to pay our financial commitments for 2013. As of December 31, 2019, the outstanding debt of the seventeenth issuance of debentures is R\$552.4 million.

In June 2017, we carried out our twenty-first issuance of debentures in two series in the aggregate principal amount of R\$500 million. The first and second series will mature in June 2020 and 2022, respectively. The debentures of the first series (in the aggregate principal amount of R\$150 million) bear interest at a rate of CDI plus 0.60% per year. The debentures of the second series (in the aggregate principal amount of R\$350 million) bear interest at a rate of CDI plus 0.90% per year. The proceeds of this issuance were used to strengthen our cash position and refinance financial commitments which mature in 2017. As of December 31, 2019, the outstanding debt of the twenty-first issuance of debentures is R\$499.7 million.

In February 2018, we carried our twenty-second issuance of debentures in three series in the aggregate principal amount of R\$750 million. The first, second and third series will mature in February 2021, 2023 and 2025 respectively. The debentures of the first series (in the aggregate principal amount of R\$100 million) bear interest at a rate of CDI plus 0.58% per year, with semi-annual interest payments. The second series (in the aggregate principal amount R\$400 million) bears interest at a rate of CDI plus 0.90% per year, with semi-annual interest payments. The third series (in the aggregate principal amount R\$250 million) bears interest at a rate of IPCA plus 6.00% per year, with annual interest payments. The proceeds from this funding were used to strengthen our cash position and refinance outstanding financial commitments in 2018. As of December 31, 2019, the outstanding debt of the twenty-second issuance of debentures is R\$765.7 million.

In May 2019, we issued our twenty-third issuances of debentures divided into two series in the aggregate principal amount of R\$866,755,000.00. The first and second series will mature in May 2024 and 2027 respectively. The debentures of the first series (in the aggregate principal amount of R\$491,755,000.00) bear interest at a rate of CDI plus 0.49% per year, with semi-annual interest payments. The second series (in the aggregate principal amount R\$375 million) bears interest at a rate of CDI plus 0.63% per year, with semi-annual interest payments. The proceeds from this funding were used to strengthen our cash position and refinance outstanding financial commitments in 2019. As of December 31, 2019, the outstanding debt of the twenty-third issuance of debentures was R\$864.6 million.



In July 2019, we issued our twenty-fourth issuances of debentures divided into two series in the aggregate principal amount of R\$400 million. The first and second series will mature in July 2026 and 2029 respectively. The debentures of the first series (in the aggregate principal amount of R\$100 million) bear interest at a rate of IPCA plus 3.20% per year, with annual interest payments. The second series (in the aggregate principal amount R\$300 million) bears interest at a rate of IPCA plus 3.37% per year, with annual interest payments. The proceeds from this funding are intended to support investment in infrastructure projects in some municipalities in which our company render services. As of December 31, 2019, the outstanding debt of the twenty- fourth issuance of debentures was R\$395.9 million.

In April 2020, we carried out our twenty-fifth issuance of debentures of R\$1.45 billion, with a maturity date of October 2021 and bearing interest at a rate of CDI plus 3.30% per year. The proceeds of this issuance are intended to strengthen our cash position and refinance outstanding financial commitments in 2020.

Part of our *real*-denominated indebtedness is indexed to take into account the effects of inflation. This debt provides for inflation-based increases to the principal amount, determined by reference to the IPCA.

#### *Financial Covenants*

We are subject to financial covenants under the agreements evidencing or governing our outstanding indebtedness.

#### Foreign currency denominated indebtedness

With respect to our indebtedness denominated in U.S. dollars, including our borrowings from the IADB, we are subject to financial covenants, including limitations on our ability to incur debt. For example:

The financial covenants in our Loan No. 1212 from the IADB require as follows:

- our tariff revenues must be sufficient to cover the operational expenses of our system, including administrative, operating and maintenance expenses, and depreciation;
- our tariff revenues must provide a return on the balance sheet value of our property, plant, and equipment of not less than 7%; and
- during project execution, the balance of our short-term borrowings must not exceed 8.5% of our total equity.

This contract contains an early maturity clause in the event of non-compliance on our part, of any obligation stipulated therein or in other contracts with the bank relating to the financing of the above-mentioned projects.

The financial covenants in our AB Loan Agreements with the IADB (No. 1983AB) require as follows:

- our debt service coverage ratio must be greater than or equal to 2.35:1.00; and
- our ratio of Net Debt (defined as all borrowed money, including debentures and Eurobonds, less interest and financial charges that have been provisioned for the current period) to Adjusted EBITDA (defined as our net income before net financial expenses, income tax and social contribution tax, depreciation and amortization, non-operating income or expenses, and extraordinary items net of income tax and social contribution, as set forth in our consolidated financial statements), each determined on a consolidated basis, must be less than 3.65:1.00.

This contract contains an early maturity clause. In the event of non-compliance with the terms of the contract, the BID can request the anticipated payment of part or all of the loan. The contract also contains cross-default provisions whereby an event of non-compliance on our part relating to any other of our debts with BID or third-parties (in this case, if over US\$25 million) allows BID to request the early payment of the loan.

The indenture relating to our US\$350.0 million 6.25% notes due 2020 prohibit, subject to some exceptions, the incurrence of additional debt in the event that: (i) the ratio of Adjusted Total Debt to adjusted EBITDA (as defined in the related indentures) is greater than 3.65:1.00; or (ii) the Debt Service Coverage Ratio (as defined in the related indentures) is less than 2.35:1.00. This agreement has a cross-default clause, i.e. the early maturity of any debt in connection with our loans or the loans of any of our subsidiaries in a total principal amount of US\$50.0 million or more (or the corresponding amount in other currencies) shall imply this agreement's early maturity. See Note 16 to our financial statements included in this annual report.

Any significant devaluation of the *real* will affect the total portion of our debt denominated in foreign currencies when measured in *reais*. As a result, the Adjusted Total or Net Debt in *reais* will be affected, with consequent impact on the ratio between Adjusted Total or Net Debt to adjusted EBITDA.

As of December 31, 2019 and 2018, we had met all the requirements of these loans and financing agreements.

#### Local currency denominated indebtedness

With respect to our outstanding indebtedness denominated in *reais*, we are subject to financial covenants.

The covenant clauses apply to all of our indebtedness with BNDES, including the 10th, 14th, and 18th issuances of debentures held by BNDES, which totaled R\$313.8 million as of December 31, 2019. The only financing agreement which is exempt from the renegotiated financing is contract No. 08.2.0169.1. See Note 16 to our financial statements included in this annual report.

In summary, the BNDES financings specify two bands for the ratios of Adjusted Net Debt / Adjusted EBITDA, Adjusted EBITDA / Adjusted Financial Expenses, and Other Onerous Debt / Adjusted EBITDA. The financings also specify a collateral mechanism by which we assign a portion of our tariff payment receivables to BNDES in order to provide a partial guarantee of the amounts due under the financings. Under this mechanism, each month we must ensure that a portion of the tariff payments which we receive are deposited on a daily basis into a blocked collateral account, before being released to a regular movements account later in the day provided that BNDES has not notified the bank that we are in default. If the ratio of Adjusted EBITDA / Adjusted Financial Expenses is equal to or higher than 3.50, the ratio of Adjusted Net Debt / Adjusted EBITDA equal to or lower than 3.00, and the Other Onerous Debt / Adjusted EBITDA equal to or lower than 1.00, the amount that must pass through this blocked collateral account is R\$225.9 million per month. If one of the three ratios mentioned above are not met in any two or more quarters, consecutive or not, within a twelve-month period, yet remain within the following band of ratios: Adjusted EBITDA / Adjusted Financial Expenses lower than 3.50 but equal to or higher than 2.80, Adjusted Net Debt / Adjusted EBITDA equal to or lower than 3.80 but higher than 3.00, and Other Onerous Debt / Adjusted EBITDA equal to or lower than 1.30 but higher than 1.00, the amount that must pass through the blocked collateral account is automatically increased by 20%.

The current covenant clauses are:

A. Maintenance of the following ratios, calculated quarterly and relative to amounts accumulated over the last 12 months at the time of disclosure of reviewed quarterly financial statements or audited annual financial statements:

- Adjusted EBITDA / Adjusted Financial Expenses equal to or higher than 3.50;
- Adjusted Net Debt / Adjusted EBITDA equal to or lower than 3.00; and
- Other Onerous Debt / Adjusted EBITDA equal to or lower than 1.00 (where “Other Onerous Debt” is equal to the sum of (i) social security liabilities and health care plans, (ii) installment payments of tax debt and (iii) installment payments of debt with electricity providers).

B. If any one of the ratios specified in A. above are not met in any two or more quarters, consecutive or not, within a twelve-month period, we shall be deemed to be in non-compliance with the first band ratios and must, as a result, automatically increase the amount passing through the blocked collateral account by 20%, provided that the following second band ratios are met:

- Adjusted EBITDA / Adjusted Financial Expenses lower than 3.50 but equal to or higher than 2.80;
- Adjusted Net Debt / Adjusted EBITDA equal to or lower than 3.80 but higher than 3.00; and
- Other Onerous Debt / Adjusted EBITDA equal to or lower than 1.30 but higher than 1.00.

C. If any one of the second band ratios specified in B. above are not met for any one quarter, or if we are required to but fails to ensure that the increased monthly amount specified in B. above passes through the blocked collateral account, then we shall be deemed to be in non-compliance with its ratio covenants, in which case BNDES may at its discretion:

- require us to provide additional financial guarantees within a deadline specified by BNDES, which may not be less than 30 days;
- suspend the release of funds; and/or
- declare the financings to be immediately due and payable.

As of December 31, 2019, the amount that must pass through the blocked collateral account is R\$255.3 million per month, not including the financial guarantees for financing contract No. 08.2.0169.1.

The financial covenants applicable to financing contract No. 08.2.0169.1 are the following:

- Adjusted EBITDA / Adjusted Net Operational Revenue equal to or higher than 38%;
- Adjusted EBITDA / Adjusted Financial Expenses equal to or higher than 2.35; and
- Adjusted Net Debt / Adjusted EBITDA equal to or lower than 3.20.

BNDES will annually verify the maintenance of the ratios mentioned above for contract 08.2.0169.1 by reviewing our audited annual financial statements, which must be presented to BNDES or published by April 30 of the following year to which the financial statements refer. If we maintain all of the financial covenants for contract 08.2.0169.1, BNDES will reduce the interest charged on this loan from 2.15% to 1.82% per annum. If the financial covenants are maintained, the interest rate is reduced as of June 16 of the same year in which the financial covenants were verified until June 15 of the subsequent year.

The financing agreement established with BNDES in March 2010 is subject to a cross-default clause. For example, the early maturity of any of our debts, the financial contracts and/or amounts of which may compromise the obligations stipulated in the indenture shall cause the early maturity of such agreement.

Additionally, since 2018, we are subject to financial covenants under the new financing agreements executed with *Caixa Econômica Federal*. These financial covenants require us to maintain the following financial indexes, calculated for the past twelve months on a quarterly basis:

- Adjusted EBITDA / Adjusted Financial Expenses, equal to or greater than 2.80;
- Adjusted Net Debt / Adjusted EBITDA, equal to or lower than 3.80;
- Other Onerous Debt / Adjusted EBITDA equal to or lower than 1.30.

These agreements provide that disbursements may be suspended if any of these covenants are not being complied with. In the event of non-compliance with the terms of these agreements, *Caixa Econômica Federal* may request the anticipated payment of the entire loan.

The agreements with *Caixa Econômica Federal* also contain a cross-default clause and an early maturity clause, in the event of non-compliance with the terms of the contract, the *Caixa Econômica Federal* can request the anticipated payment of part or all of the loan. See Note 16 to our financial statements included in this annual report.

With respect to our outstanding debentures, the twelfth issuance requires us to maintain an Adjusted Current Ratio (current assets divided by current liabilities, excluding from current liabilities the current portion of noncurrent debts incurred by us that is recorded in current liabilities) higher than 1.0:1.0 and an EBITDA/Financial Expenses Ratio equal to or higher than 1.5:1.0. The twelfth debenture issuance has an early maturity clause, which is triggered if our credit ratings are downgraded two levels below the “brAA-” Brazil National Scale rating assigned to our debentures by the credit rating agency S&P at the time of their issuance. On July 11, 2018, our credit rating and the one assigned to the twelfth debenture issuance by S&P were both “brAAA.” This issuance has a cross-default clause.

The tenth, fourteenth and eighteenth issuances follow the covenants included in the BNDES loans, as described above, and contain a cross-default clauses.

The seventeenth issuance requires us to maintain an adjusted EBITDA/paid financial expenses ratio equal to or higher than 1.5:1.0 and an adjusted total debt/adjusted EBITDA ratio equal to or lower than 3.65:1.0. This issuance has a cross-default clause.

The table below shows the more restrictive covenants ratios and our financial covenants ratios as of December 31, 2019.

The twenty-first, twenty-second, twenty-third, twenty-fourth and twenty-fifth debenture issuances require us to maintain an adjusted EBITDA/paid financial expenses ratio equal to or higher than 1.5:1.0 and an adjusted net debt/adjusted EBITDA ratio equal to or lower than 3.50:1.0. These issuances have a cross-default clause.

	<b>Restrictive Ratios</b>	<b>Ratio as of December 31, 2019</b>
Adjusted EBITDA / Adjusted financial expenses	Equal to or higher than 2.80:1.00	6.33
Adjusted net debt / Adjusted EBITDA	Equal to or lower than 3.80:1.00	1.48
Adjusted total debt / Adjusted EBITDA	Lower than 3.65:1.00	1.75
Other onerous debt <sup>1</sup> / Adjusted EBITDA	Equal to or lower than 1.30:1.00	0.45
Adjusted current ratio	Higher than 1.0	1.32
EBITDA/Paid financial expenses	Equal to or higher than 2.35:1.00	10.19
Net debt/Adjusted EBITDA	Equal to or lower than 3.50:1.0	1.45

- (1) “Other Onerous Debts” correspond to the sum of social security liabilities, health care plan, installment payment of tax debts and installment payment of debts with the electricity supplier.

As of December 31, 2019 and 2018, we complied with all the covenants of our loans and financing agreements.

## **Capital Requirements**

We have, and expect to continue having, substantial liquidity and capital resource requirements. These requirements include debt-service obligations, capital expenditures to maintain, improve and expand our water and sewage systems, and dividend payments and other distributions to our shareholders, including the State.

### ***Capital Expenditures***

Historically, we have funded and plan to continue funding our capital expenditures with funds generated by operations and with long-term financing from international and national multilateral agencies and development banks. We generally include in our capital expenditure program for the following year the amount of investment that was not realized in the previous year. In 2019, we recorded R\$5.1 billion to improve and expand our water and sewage system and to protect our water sources in order to meet the growing demand for water and sewage services in the state of São Paulo. We have budgeted investments in the amount of approximately R\$20.2 billion from 2020 through 2024. See “Item 4.A. History and Development of the Company—Capital Expenditure Program.”

### ***Dividend Distributions***

We are required by our bylaws to make dividend distributions, which can be made as payments of interest on shareholders’ equity to our shareholders in an amount equal to or higher than 25% of the amounts available for distribution. In addition, our dividend policy, which was approved at the annual shareholders’ meeting held on April 29, 2019, establishes that this percentage shall be maintained until the universalization of basic sanitation services in the areas where we operate. We declared dividends of R\$941.0 million, R\$792.2 million and R\$703.9 million in 2019, 2018 and 2017 and, respectively. As of the date of this annual report, we do not intend to suspend the distribution of dividends during the ongoing COVID-19 pandemic. See “Item 7.B. Related Party Transactions—Dividends.”

## **C. Research and Development, Patents and Licenses, Etc.**

### ***Research and innovation***

Our strategic innovation process goes beyond the development of new technologies, products and services. It involves the creation of new business models, new ways of meeting the needs of consumers, new organizational processes, new ways of competing and cooperating in the business environment and improvements to service delivery, while at the same time promoting protection of the environment and public health.

We set up a Corporate “Research, Technological Development and Innovation” Program, which allows us to differentiate the financial resources spent specifically for this purpose within our budget structure. In 2019, we allocated R\$17.4 million to Research, Development and Innovation, or RD&I, projects. These resources are a differential in our results and indicate our capacity for innovation and pioneering, which can bring fiscal, tariff and financial advantages. In addition, in September 2019, based on programs already in place in the power and gas sectors, ARSESP created the Quadrennial Research and Technological Development Program for Innovation in Basic Sanitation Services (the “PD&I Program”), establishing the application of the 0.05% revenue required in Research and Technological Development projects. ARSESP also approved the Elaboration and Evaluation Manual of the PD&I Program. We are required to file a portfolio of PD&I Program projects for analysis and prioritization by ARSESP. The Quadrennial Program will produce tariff effect in the 2020 annual adjustment. However, taking the scenario of reduced revenues in the short term resulting from the COVID-19 pandemic into account, ARSESP published Resolution No. 991/2020 which suspended the implementation of the Four-year Research and Technological Development Program for Innovation in Sanitation Services scheduled for May 2020. See “—Tariff Readjustment and Revisions.”

In line with business planning, the structuring of RD&I actions is based on the concept of a circular economy and resource recovery, that is, based on the intelligence of nature, the circular process opposes the traditional linear production process. As part of this concept, residues are inputs for the production of new products and new cycles. We have highlighted below certain RD&I projects that use the concept of a circular economy as part of the processes for the water and sewage treatment.

The sequential implementation of integrated actions for liquid, solid and gaseous sewage treatment phases at the sewage treatment plant in Franca aims to optimize processes and transform the site into a resource recovery plant. An additional project has also been implemented to transform biogas from the sewage treatment process into biomethane, which has been used to supply our vehicle fleet in the same municipality. The biomethane project is the result of a technical cooperation agreement with the Fraunhofer Institute in Germany. This project is the only one in Latin America that produces biomethane from sewage treatment. The plant treats an average of 500 liters per second of sewage and produces around 2,500 m<sup>3</sup> of biogas per day, enough to replace 1,500 liters of common gas daily. It currently supplies part of the unit's fleet of vehicles.

At the same plant, we developed and are operating a sludge dryer based on solar radiation, financed by the Funding Authority for Studies and Projects (Financiadora de Estudos e Projetos, or FINEP) in the "Technological Innovations Plan of Sabesp for Sanitation" financed by the FINEP *Inova Brasil* program.

At the Barueri sewage treatment plant, we implemented a plasma gasification system for the processing of sludge generated. It is current in the adjustment phase to ensure it fully operates in a continuous and safe way. At the end of the process, the system generates inert residue with drastic reduction in its volume. The project was funded by FINEP.

In order to generate clean energy to improve the efficiency of sewage treatments we installed solar-powered aerators, increasing the removal of sewage sludge. Test results indicate that this technology can be replicated and adapted elsewhere. Shortage of water is an increasingly imminent problem in large urban centers. Accordingly, an increasingly conscious use of water and the search for alternative ways of reusing water are essential. With regard to projects that use the concept of the circular economy in the processes of water treatment, we have undertaken tests for the use of ceramic membranes for the ultrafiltration of silicon carbide for the recovery of waste water from water treatment plants. Test results point to the feasibility in the use of this technology.

In partnership with the São Paulo State University Júlio de Mesquita Filho - UNESP, we are evaluating the technical and environmental feasibility of the use of sludge from water treatment plants as raw material for the base and sub-base of pavements, adding value to a by-product.

We also developed biofiltration units for odor control to be installed in the sewage and pumping stations in Pinheiros and Pomar, in the city of São Paulo. This is an example of a project fostered by studies developed internally by us. This project is also funded by FINEP.

From our partnership with FAPESP financial resources are invested equally to subsidize and support the development of basic and applied research projects under the Program for Support of Research in Partnership for Technological Innovation for research projects in academic or research institutions, whose themes originated from the demands pointed out by the operational areas. This partnership has already resulted in 17 projects with different universities, such as: University of São Paulo - USP, Technological Institute of Aeronautics - ITA, Federal University of São Paulo - UNIFESP, National Institute for Space Research - INPE and São Paulo State University - UNESP. The partnership provides for a non-refundable financing of R\$ 50 million, divided equally between us and FAPESP. The first and second summons to select projects to finance led to the filing of seven patent and one software registration requests. In March 2020, we launched the third summon, to which we will finance projects up to a total of R\$8 million and which we expect to conclude by November 2020.

### ***Open Innovation***

We are investing in the development and implementation of actions as part of Open Innovation, integrating ideas, thoughts, processes and research from players from various internal and external segments of our company, aiming to improve its processes, products and services. This project includes: Pitch Sabesp; partnerships among sanitation companies, participation in collaborative networks and Coworking, among others.

Pitch Sabesp was a public competition launched in 2018, in which 27 challenges were proposed in five different areas of the sanitation sector, with a focus on innovative solutions that could add competitive advantages to our products and services. Throughout 2019, technological application project sites were mapped for the technical conditions necessary for a controlled environment. The conclusion of the technical and financial feasibility assessment for the solutions is scheduled for 2020.

Collaborative Networks for Innovation, in which we participate, provide integration with the different spheres of government, startups, companies, universities, development institutions, etc. All players seek to add knowledge and experience, to build joint solutions for the challenge of implementing open innovation in the public sector. The participation of the Urban Living Labs working group (urban sustainability laboratory - ULL) associated with an international consortium, the Belmont Forum, supported by the nexus among water use, food and power generation, or FEW.

We also have a second agreement with FAPESP to focus on supporting the execution of scientific and/or technological research in micro, small and medium enterprises in the State of São Paulo, through the Small Enterprises Innovation Program aimed at accelerating start-ups focused on the development of innovative projects that solve challenges faced by us.

We publish the DAE Magazine, a quarterly engineering journal published by a specialized team of opinion makers that in 2019 totaled more than 220 issues since its first edition. This journal was indicated in the Qualis/CAPEs system from the “B2” to “B1” category in July , 2019. Through the publication of technical and scientific articles on basic and environmental sanitation, we aim to encourage and disseminate improvements in processes, innovations and technological advances.

#### **D. Trend Information**

Several factors may affect our future results of operations, liquidity and capital resources, including:

- the interests of our controlling shareholder;
- our potential corporate reorganization, as approved by State Law No. 16,525 on September 15, 2017 or any other type of reorganization that might be approved by the government that may include change in control;
- regulations issued by ARSESP regarding several aspects of our business, with respect to our ability to adjust our tariffs and the competency of state and municipalities to manage their sanitation affairs;
- general economic, political, demographical, health and other conditions in Brazil and in other countries;
- the effects of extreme weather events;
- the effects of any continuous international financial turmoil that may affect liquidity in the Brazilian capital and lending markets;
- the effects that further changes in the Basic Sanitation Law and its interpretation may have on the basic sanitation industry in Brazil and on us;
- the effects of inflation in our results of operations;
- the effects of fluctuations in the value of the Brazilian real and in interest rates on our net interest income;
- the renewal of our concession agreements;
- the impact on our business of lower water consumption practices adopted by our customers during the water crisis, which we do not know if they will return to their prior standards despite the discontinuation of the measure we adopted to serve the São Paulo metropolitan region during the water crisis, or if the impact will be compensated by tariffs established by ARSESP;
- investments made, by some sectors, during the water crisis in search of alternative sources of supply, such as the drilling of artesian wells, the reuse of water and the use of rainwater;
- any measures that we may be required to take to ensure the provision of water to our customers;
- our ability to access financing with favorable terms in the future;
- the potential impacts on our business caused by the approval and conversion of the Bill No. 4,162/2019 into law, which is currently under discussion;
- the impact of widespread health developments, such as COVID-19, and the governmental, regulatory, consumer and other responses thereto and its effects on our operating revenues and financial condition as a result of, *inter alia*, a decrease in water consumption and an increase in defaults in certain sectors and an increase in non-payment of water bills;

- the outcome of any pending or future legal proceedings; and
- the formalization of agreements with certain of the municipalities we serve.

Some of these factors are described in more detail under “5.A. Operating and Financial Review and Prospects.”

In addition, you should read “3.D. Risk Factors” for a discussion of the risks we face in our business operations, which could affect our business, financial condition or results of operations.

#### E. Off-Balance Sheet Arrangements

We had no off-balance sheet arrangements as of December 31, 2019.

#### F. Tabular Disclosure of Contractual Obligations

Our debt obligations and other contractual obligations as of December 31, 2019 were as follows:

	<u>Less than 1 year</u>	<u>1-3 years</u>	<u>3-5 years</u>	<u>More than 5 years</u>	<u>Total</u>
	(in millions of reais)				
Loans and financing	2,859.8	2,345.5	2,291.1	5,748.3	13,244.7
Estimated interest payments <sup>(1)</sup>	443.9	824.6	601.7	967.6	2,837.8
Accounts payable to suppliers and contractors	369.6	-	-	-	369.6
Services payable	474.1	-	-	-	474.1
Program contract commitments	276.6	78.7	33.0	13.8	402.1
Purchase obligations <sup>(2)</sup>	3,191.8	4,803.3	1,933.8	3,043.4	12,972.3
<b>Total</b>	<b>7,615.8</b>	<b>8,052.1</b>	<b>4,859.6</b>	<b>9,773.1</b>	<b>30,300.6</b>

- (1) Estimated interest payments on loans and financing were determined considering the interest rates as of December 31, 2019. However, our loans and financing are subject to variable interest indexation and foreign exchange fluctuations, and these estimated interest payments may differ significantly from payments actually made. The debt agreements have cross-default clauses.
- (2) The purchase obligations are the contractual obligations of investments and expenses.

We believe that we can meet the maturity schedule through a combination of funds generated by operations, the net proceeds of new issuances of debt securities in the Brazilian and international capital markets and additional borrowings from domestic and foreign lenders. Our borrowings are not affected by seasonality. For information concerning the interest rates on our indebtedness outstanding as of December 31, 2019, see Note 16 to our financial statements as of December 31, 2019 and 2018 and for the years ended December 31, 2019, 2018 and 2017, included elsewhere in this annual report.

## ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

### A. Directors and Senior Management

Under our bylaws and Brazilian Corporate Law, we are managed by our board of directors (*Conselho de Administração*), which currently consists of nine directors, and a board of executive officers (*Diretoria*), which currently consists of six executive officers.

As our controlling shareholder, the State has the ability to elect the majority of our board of directors and, therefore, our direction and future operations. Upon the election of a new State governor and any resulting change in the administration of the State, all or some of the members of our board of directors, including our chairman, have historically been replaced by designees of the new administration. Our board of directors may in turn replace some or all of the executive officers. See “Item 3.D. Risk Factors—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.”

#### *Board of Directors*

Our bylaws provide for a minimum of seven and a maximum of eleven directors. The members of our board of directors are elected at a general shareholders’ meeting to serve a two-year term. Such terms may be renewed three consecutive times. Pursuant to our bylaws, our employees have the option to elect one member of our board of directors. Currently, our employees have not elected a director. In addition, pursuant to Law No. 6,404/1976 of December 15, 1976, as amended, or the “Brazilian Corporate Law,” at least one member of the board of directors of mixed capital companies, such as us, must be appointed by the minority shareholders. Finally, according to the Novo Mercado rules and Federal Law No. 13,303/16, at least two, or 25.0% (whichever is greater), of the board of directors must be comprised of independent members.

All the current members of our board of directors were elected at the annual shareholders' meeting held on April 27, 2018, except for Benedito Pinto Ferreira Braga Junior who joined our board of directors on January 10, 2019 when he was appointed our Chief Executive Officer, and Wilson Newton de Mello Neto who joined our board of directors on October 24, 2019. The tenure of all the directors will end on May 14, 2020, when the members elected at our annual shareholders' meeting held on April 28, 2020 are expected to take office. Currently, we have six members considered independent under the Novo Mercado rules and Federal Law No. 13,303/16.

Our board of directors ordinarily meets once a month or, when necessary for the interests of our company, when called by a majority of the directors or the chairman. Its responsibilities include the establishment of policy and general orientation of our business, and the appointment and supervision of our executive officers.

The following are the names, ages, positions, dates of election and brief biographical descriptions of the current members of our board of directors:

<b>Director</b>	<b>Age</b>	<b>Position</b>	<b>Date Elected</b>
Mario Engler Pinto Junior	63	Chairman	April 27, 2018
Benedito Pinto Ferreira Braga Junior	72	Member	January 10, 2019
Wilson Newton de Mello Neto	48	Member	October 24, 2019
Reinaldo Guerreiro	67	Independent Member <sup>(1)</sup>	April 27, 2018
Francisco Vidal Luna	73	Independent Member <sup>(1)</sup>	April 27, 2018
Luís Eduardo Alves de Assis <sup>(2)</sup>	63	Independent Member <sup>(1)</sup>	April 27, 2018
Francisco Luiz Sibut Gomide	74	Independent Member <sup>(1)</sup>	April 27, 2018
Lucas Navarro Prado	39	Independent Member <sup>(1)</sup>	April 27, 2018
Ernesto Rubens Gelbcke	76	Independent Member <sup>(1)</sup>	April 27, 2018

(1) These members comply with the independence requirements established by Federal Law No. 13,303/16 and the *Novo Mercado* rules.

(2) Member appointed by the minority shareholders.

*Mario Engler Pinto Junior.* Mr. Engler has been the Chairman of our board of directors since April 2018. Before that, he served as member of our board of directors from 2006 to 2011 and as member of our audit committee from 2006 to 2009. He holds a PhD degree in Commercial Law from Getúlio Vargas Foundation Law School (*Fundação Getúlio Vargas – FGV*) and is now a professor at the same institution. At FGV Law School, Mr. Engler is the coordinator for the professional master's program and conducts legal research regarding contractual and corporate arrangements in the public and private sector. He has been a lawyer since 1979 and served for 30 years as public attorney for the State of São Paulo from 1984 to 2014. In the last years, he has been an arbitrator and executive officer and director for private companies and State-owned enterprises.

*Benedito Pinto Ferreira Braga Junior.* Mr. Braga has been our Chief Executive Officer and a member of our board of directors since January 2019. He has a degree in civil engineering from the School of Engineering of São Carlos of the University of São Paulo (*Escola de Engenharia de São Carlos da Universidade de São Paulo – USP*), a master's degree in Hydrology from Stanford University, a master's degree in Hydraulics from USP, and a PhD in Water Resources from Stanford University. He was Secretary of Sanitation and Water Resources of the State of São Paulo from January 2015 to May 2018 and was the Chairman of our Board of Directors from January 2015 to April 2018. He was a professor at the Polytechnic School of University of São Paulo from 1980 to 2019. He was Co-Chairman of the International Organizing Committee of the World Water Forum in Brasilia (2018), in Korea (2015) and Chairman of the Committee in France (2012). He is Honorary President of the World Water Council – WWC, of which he was the President from 2012 to 2018. Mr. Braga was also the President of the Intergovernmental Council of UNESCO's International Hydrological Program from 2008 to 2009, President of the International Water Resources Association – IWRA, from 1998 to 2000, as well as, Director of the National Water Agency from 2001 to 2009.

*Wilson Newton de Mello Neto.* de Mello Neto has been a member of our board of directors since October 2019. He holds a bachelor's degree in Law from the Pontifical Catholic University of Sao Paulo (*Pontifícia Universidade Católica de São Paulo - PUC/SP*). He has been the CEO of *Investe São Paulo* since April 2019 and a member of the Industrial Policy Council of the Brazilian National Confederation of Industry (*Confederação Nacional da Indústria - CNI*) since March 2019. He was Vice-President of Corporate Affairs and General Secretary at Danone from May 2015 to March 2019; Director of Corporate Affairs at JBS S.A. from September 2014 to May 2015; Vice-President of Corporate Affairs at BRF S.A. from June 2010 to August 2013; Legal and New Business Director at Tishman Speyer Ltda. from March 2009 to May 2010; Vice-President of Corporate Affairs at Walmart Brasil Ltda. from March 2004 to April 2007; and partner at Machado, Meyer, Sendacz e Opice Advogados from June 1992 to February 2004 and from May 2007 to February 2009. Mr. de Mello Neto was also Vice-President of the Brazilian Supermarket Association (*Associação Brasileira de Supermercados - ABRAS*) from May 2004 to April 2007; member of the Executive Board of the Brazilian Association of Advertisers (*Associação Brasileira de Anunciantes - ABA*) from May 2015 to March 2019; and Chairman of the Board of Directors of the Brazilian Food Industry Association (*Associação Brasileira da Indústria de Alimentos - ABIA*) from March 2018 to March 2019.



*Reinaldo Guerreiro.* Mr. Guerreiro has been an independent member of our board of directors since January 2007. He holds a doctorate in Accounting and Controllershship, a Master's degree in Accounting and Controllershship and a Bachelor's degree in Accounting Sciences, all of them from the Business, Economics and Accounting School at the University of São Paulo (FEA - USP). As a professor of FEA-USP, he was Director and currently is the Deputy Head of the Accounting Department. As a Brazilian National Council for Scientific and Technological Development (CNPq) researcher, he has authored books in management accounting and has published various scientific articles in domestic and international magazines. Mr. Guerreiro was a member of our Audit Committee from January 2007 to May 2017. He is currently President of Audit Committee of Petrobras Gás S.A. (Gaspetro). He is also a specialized consultant in financial management and has worked on various projects in the areas of financial management, costs, budget and IT in a variety of companies, such as Banco do Brasil, *Caixa Econômica Federal*, Previ, *Correios* and for the São Paulo State Government - GESP.

*Francisco Vidal Luna.* Mr. Luna has been an independent member of our board of directors since April 2013 and a member of our Audit Committee from April 2013 to September 2016. He has a doctorate in Economics from the Business, Economics and Accounting School at the University of São Paulo (Universidade de São Paulo - USP) and is a retired professor of the same university. He was member of the Board of Directors of BNDES. In the public sector, he has served as the Secretary of Planning for the state and city of São Paulo. He has also worked at the Treasury Department for the State of São Paulo and the Federal Planning Bureau, among other roles. In the private sector, he was the Executive Chairman of Banco Inter American Express S.A. He is currently a member of the Board of Directors and Chairman of the Audit Committee of Desenvolve SP, member of the Audit Committee of the Petrobrás Conglomerate, a member of the Board of Trustees of the *Fundação Faculdade de Medicina* - FFM and a member of the Board of Trustees of *FIPE - Fundação Instituto de Pesquisas Econômicas*.

*Luís Eduardo Alves de Assis.* Mr. Assis has been an independent member of our Board of Directors since April 2014 and a member of our Audit Committee since September 30, 2016. He holds a degree in Economics from the University of São Paulo (Universidade de São Paulo - USP), a Master's degree from the State University of Campinas (Universidade Estadual de Campinas – UNICAMP) and an MBA from *Scuola Superiore Enrico Mattei* in Milan, Italy. He was director of Monetary Policy of the Central Bank of Brazil and a professor in the Department of Economics at the Pontifical University of São Paulo (Pontifícia Universidade Católica de São Paulo - PUC-SP) and at the Getulio Vargas Foundation (*Fundação Getulio Vargas - FGV-SP*). He has developed his long career in the financial market, having held the positions of Chief Economist and Investment Director at Citibank, Chief Executive Officer at HSBC Investment Bank Brasil, Chief Executive Officer at HSBC Asset Management, Chief Operating Officer at HSBC Bank Brasil, Senior Strategic Planning Executive at the HSBC Group in London and Local Director for Latin America at HSBC. Currently, he serves as the President of Fator Seguradora and as vice-president of the Fernand Braudel Institute of World Economics council. He also writes an opinion column for the newspaper *O Estado de São Paulo*.

*Francisco Luiz Sibut Gomide.* Mr. Gomide has been an independent member of our board of directors since April 2017. He was a member of our Audit Committee from May 2017 to August 2017. He holds Bachelor's degrees in Civil Engineering and in Economic Sciences from the Federal University of Paraná (Universidade Federal do Paraná) and a PhD in Hydrology and Water Resources from the Colorado State University. He was the Minister of Mines and Energy in 2002, CEO of ESCELSA – Espírito Santo Centrais Elétricas S.A. between 1995 and 2001, the CEO of the Energy Company of Mato Grosso do Sul between 1997 and 2001, the General Brazilian Director of Itaipu Binacional between 1993 and 1995, the CEO of the Energy Company of Paraná (*Companhia Paranaense de Energia – Copel*) between 1986 and 1993 and the Chief Financial Officer of the same company from 1983 to 1985. Mr. Gomide was also a professor at the Federal University of Paraná (Universidade Federal do Paraná) from 1970 to 1995. Between 1969 and 1982, he was a hydraulic engineer and hydrologist at the Energy Company of Paraná.

*Lucas Navarro Prado.* Mr. Prado has been an independent member of our board of directors and a member of our Audit Committee since August 2017. He holds a law degree from the University of São Paulo (Universidade de São Paulo - USP) and a master's degree in Corporate Finance and Investment Banking from the University of São Paulo's Business Institute Foundation (FIA-USP). From 2005 to 2007, he served as the advisor to the public-private partnership division of the Planning, Budget and Management Ministry of Brazil. Mr. Prado served as an advisor to SABESP's CEO between 2007 and 2009 and as the head of SABESP's legal department between 2009 and 2011.

*Ernesto Rubens Gelbcke.* Mr. Gelbcke has been an independent member of our board of directors since April 2018. Mr. Gelbcke has a Bachelor's degree and a Master's degree in accounting sciences, both from the School of Economics, Administration and Accounting of the University of São Paulo (Faculdade de Economia, Administração e Contabilidade da Universidade de São Paulo – FEA USP). He worked at Arthur Andersen (various positions, including São Paulo audit coordinator and member of the Brazil technical policies committee) from 1965 to 1976, Directa Auditores (founder and CEO) from 1977 to 2014, Grant Thornton Brasil (chairman of the board of directors) from 2014 to 2015, Gelbcke Consultores (founder and consultant) since 2001, and GHG Contadores (founder) since 2017. He was one of the twelve elected members of the Accounting Pronouncements Committee, representing the Foundation Institute of Accounting, Actuary and Financial Research (*Fundação Instituto de Pesquisas Contábeis, Atuariais e Financeiras – FIPECAFI*) from its creation in 2006 until 2016. He was also a professor at FEA USP from 1971 to 2003, professor and coordinator of the audit specialization course at the Central Bank with the Foundation Institute for Accounting, Actuarial and Financial Research (Fundação Instituto de Pesquisas Contábeis, Atuariais e Financeiras – FIPECAFI) from 1978 to 1980, among others. He has authored and co-authored various articles, technical opinions and books, such as “Accounting Manual for Stock Companies” (Manual de Contabilidade das Sociedades por Ações), “Manual for Corporate Accounting” (Manual de Contabilidade Societária), and “Intermediate Accounting” (*Contabilidade Intermediária*). He was a member of the fiscal committee and of the audit committee of AMBEV S.A. from 2007 to 2009, a member of the Board of Directors of the Brazilian Institute of Independent Accountants (*Instituto dos Auditores Independentes do Brasil – IBRACON*) from 2015 to 2017, and a member of the audit committee of AES Eletropaulo in 2017, among others. Since 2017, he has been a member of the fiscal council of FIPECAFI. This term expires in 2019.

We held our Annual General Meeting on April 28, 2020. During the meeting our shareholders elected (i) Mario Engler Pinto Junior, Benedito Pinto Ferreira Braga Junior, Wilson Newton de Mello Neto and Cláudia Polto da Cunha to be members of our Board of Directors; and (ii) Francisco Vidal Luna, Reinaldo Guerreiro, Francisco Luiz Sibut Gomide, Lucas Navarro Prado and Eduardo de Freitas Teixeira and Walter Luis Bernardes Albertoni to be independent members of our Board of Directors. Walter Luis Bernardes Albertoni is the member appointed by our minority shareholders. Their term of office is expected to commence on May 14, 2020.

## Board of Executive Officers

Our board of executive officers is composed of six executive officers appointed by our board of directors for a two-year term. Such terms may be renewed three consecutive times. Our executive officers are responsible for all matters concerning our day-to-day management and operations. Members of our board of executive officers have individual responsibilities established by our board of directors and our bylaws.

The following are the names, ages, positions, dates of election and brief biographical descriptions of our board of executive officers:

Executive Officer	Age	Position	Date Elected
Benedito Pinto Ferreira Braga Junior	72	Chief Executive Officer	June 13, 2019
Adriano Candido Stringhini	44	Corporate Management Officer	June 13, 2019
Rui de Britto Álvares Affonso	62	Chief Financial Officer and Investor Relations Officer	June 13, 2019
Paulo Massato Yoshimoto	67	Metropolitan Region Officer	June 13, 2019
Ricardo Daruiz Borsari	64	Regional Systems Officer	June 13, 2019
Alceu Segamarchi Junior	62	Technology, Enterprises and Environment Officer	February 20, 2020

*Benedito Pinto Ferreira Braga Junior.* See above, “—Board of Directors.”

*Adriano Candido Stringhini.* Mr. Stringhini has been our Corporate Management Officer since January 2019. He is also the current Governor (Board of Governors) of the World Water Council for the 2019-2021 triennium, he is a member of the Board of Directors of IMESP - *Imprensa Oficial do Estado de São Paulo* and was elected as Vice-Chairman of the Board of Aberje – *Associação Brasileira de Comunicação Empresarial* in 2020. He has a master’s degree in Law from the Law School of University of São Paulo (*Faculdade de Direito da Universidade de São Paulo – USP*). He has a degree in Law from USP and he is specialist in Organizational Strategic Communication and Public Relations from School of Communications and Arts of USP (*Escola de Comunicações e Artes – ECA/USP*). He was our Head of Communication from April 2009 to January 2019 and Head of Legal Affairs from 2007 to 2009. He was the Head Lawyer of Funding Authority for Studies and Projects (*Financiadora de Estudos e Projetos - Finep-SP*) of the Ministry of Science and Technology (*Ministério da Ciência e Tecnologia*) from 2002 to 2007. He was advisor to the Chief Executive Officer of the Administrative Council for Economic Defense (*Conselho Administrativo de Defesa Econômica – CADE*), between 1999 and 2001. He was a professor in undergraduate and graduate courses of several institutions, among them: Fundação Getúlio Vargas - FGV, Mackenzie University and School of Law of the Lawyers of São Paulo Institute (*Escola Paulista de Advocacia do Instituto dos Advogados de São Paulo – IASP*).

*Rui de Britto Álvares Affonso.* Mr. Affonso has been our Chief Financial Officer and Investor Relations Officer since July 2003. Mr. Affonso holds a PhD and a Master’s degree in Economics from the State University of Campinas (*Universidade Estadual de Campinas – UNICAMP*), and a degree in Economics from the University of São Paulo (*Universidade de São Paulo - USP*). He has been a professor at UNICAMP since 1986, a professor at the Business, Economics and Accounting School of USP from 1983 to 1989, and a Director of Public Economy at the Foundation of Administrative Development (*Fundação do Desenvolvimento Administrativo*) from 1994 to 2003. He also represented Brazil on the board of directors of the Forum of Federations, a non-governmental entity located in Canada, from 2000 to 2006. Mr. Affonso has also held several positions in state government. In 2017 Mr. Affonso won the Professional Award of the Year of 2016 in Finance by ANEFAC/SERASA EXPERIAN - National Association of Executives of Finance, Administration and Accounting.

*Paulo Massato Yoshimoto.* Mr. Yoshimoto has been our Metropolitan Region Officer since February 2004. He holds a degree in Civil Engineering from the Lins School of Engineering (*Escola de Engenharia de Lins*). Mr. Yoshimoto joined us in 1983, and has held the positions of executive assistant to the operations office and head of the water production and maintenance and metropolitan planning departments. Mr. Yoshimoto has also held the position of senior planning professional at *Empresa Metropolitana de Planejamento* from 1975 to 1983.

*Ricardo Daruiz Borsari.* Mr. Borsari has a degree in Civil Engineering and a master’s degree in Civil Engineering from the Polytechnic School of University of São Paulo (*Escola Politécnica da Universidade de São Paulo – USP*). He was Secretary of Sanitation and Water Resources of the State of São Paulo from May to December 2018. He worked in several positions at the DAEE, among them: Engineer since 1978, Executive Officer from January 2015 to May 2018 and from June 2001 to February 2007, Executive Officer of Engineering and Construction Works from August 2010 to October 2011, Executive Officer of the Technology Center of Hydraulic and Water Resources from July 2008 to October 2011. He was Executive Secretary of the Alto Tietê River Basin Committee from 2001 to 2005 and from 2017 to 2018 and Chief Executive Officer and member of the Board of Directors of Metropolitan Water and Energy Company (*Empresa Metropolitana de Águas e Energia – EMAE*), from 2011 to 2015. He was a member of the Board of Directors of Companhia Energética de São Paulo - CESP between April 2015 and May 2018. Mr. Borsari was a professor at several institutions, including: School of Engineering of Mackenzie University from 1979 to 1980, School of Engineering of Fundação Armando Álvares Penteado – FAAP, from 1982 to 1986, Polytechnic School of USP, from 1989 to 2004, and Pontifical University Catholic of São Paulo – PUCSP, from 1997 to 2001.

*Alceu Segamarchi Junior.* Mr. Segamarchi has been our Technology, Enterprises and Environment Officer since February 2020. He holds a degree in Civil Engineering from the Pontifical Catholic University of Campinas (*Pontifícia Universidade Católica de Campinas – PUC Campinas*) a postgraduate degree in Public Administration from the Getúlio Vargas Foundation (*Fundação Getúlio Vargas – FGV*), and a diploma from the Privatization and Infrastructure Program from Harvard University. He worked at the Department of Water and Electricity of the State of São Paulo (*Departamento de Águas e Energia Elétrica do Estado de São Paulo - DAEE*) Superintendent, from February 2019 to February 2020 and from March 2011 to January 2015. Mr. Segamarchi was also Nacional Secretary of Environmental Sanitation of the Ministry of Cities (*Saneamento Ambiental do Ministério das Cidades*) from May 2016 to April 2017, and worked in the municipality of Sorocaba from April 2017 to December 2018 as Secretary of Sanitation. He also held several leadership positions at *Companhia Paulista de Trens Metropolitanos - CPTM* from 1996 to 2009 and worked at *Ferrovias Paulista S.A. - Fepasa* until 1996, where he began his career in 1980.

## B. Compensation

Pursuant to Brazilian Corporate Law, our shareholders are responsible for establishing the aggregate amount of compensation we pay to the members of our board of directors, members of our fiscal committee and our executive officers. According to Instruction No. 480 issued by CVM, we have to periodically disclose certain information on the aggregate compensation such as averages and fringe benefits.

In 2019, 2018 and 2017, the aggregate compensation, including benefits in kind granted that we paid to members of our board of directors, board of executive officers and fiscal committee for services in all capacities was R\$6.7 million, R\$ 4.6 million and R\$4.4 million, respectively. At our annual shareholders' meeting held on April 29, 2019, our shareholders approved R\$4.8 million in aggregate compensation payable to members of our board of directors, members of our fiscal committee and our executive officers in 2019. On June 3, 2019, the annual total compensation of the management and members of the audit committee and fiscal council was adjusted to R\$6,920 thousand in accordance with our Compensation Policy, amended by our Board of Directors on May 3, 2019. The aggregate compensation was adjusted again on November 26, 2019 to R\$6,926 million, due to the election of a new member of the fiscal council.

The table below sets forth the breakdown of the total compensation received by our directors and members of our board of executive officers and fiscal committee and other data related to their compensation for the periods indicated:

	<b>Year ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
	<i>(in thousands of R\$, except where indicated otherwise)</i>		
<b>Total compensation per administrative body</b>			
Board of directors	1,417	1,106	848
Board of executive officers	5,000	3,228	3,208
Fiscal committee	275	280	313
<b>Total amount of compensation</b>	<b>6,692</b>	<b>4,614</b>	<b>4,369</b>
<b>Number of members (in individuals)</b>			
Board of directors	9	10	7
Board of executive officers	6	6	6
Fiscal committee	4	5	5
<b>Fixed annual compensation</b>			
Salary			
Board of directors	1,084	851	659
Board of executive officers	2,487	1,849	1,856
Fiscal committee	212	215	247
Direct and indirect benefits			
Board of directors	334	255	189
Board of executive officers	1,165	841	796
Fiscal committee	62	65	66
<b>Variable compensation</b>			
Bonus			
Board of directors	-	-	-
Board of executive officers	1,348	538	556
Fiscal committee	-	-	-
<b>Maximum amount of compensation</b>			
Board of directors	205	162	156
Board of executive officers	867	677	691
Fiscal committee	67	66	62

	Year ended December 31,		
	2019	2018	2017
	(in thousands of R\$, except where indicated otherwise)		
<b>Minimum amount of compensation</b>			
Board of directors	121	99	96
Board of executive officers	802	498	439
Fiscal committee	67	60	62
<b>Average amount of compensation</b>			
Board of directors	153	115	121
Board of executive officers	810	516	535
Fiscal committee	69	61	62

At our annual shareholders' meeting held on April 28, 2020, our shareholders approved of R\$8.1 million in aggregate compensation payable to the members of our board of directors, members of our fiscal committee and our executive officers in 2020.

### **Profit Sharing and Pension Plans**

We have established a pension and benefit fund (*Fundação SABESP de Seguridade Social*), or SABESPREV, to provide our employees with retirement and pension benefits. This pension plan provides benefit payments to former employees and their families. Both we and our employees make contributions to the pension plan under SABESPREV, which we called as plan G1. Our total contributions to the pension plan totaled R\$37.0 million, R\$36.2 million and R\$48.7 million in 2019, 2018 and 2017, respectively. In addition to the pension plan under SABESPREV, we are also required to pay supplemental pension payments relating to the employment contract of certain employees prior to the creation of SABESPREV, which we called as plan G0. Based on independent actuarial reports, as of December 31, 2019, our obligation under these both plans (G0 and G1) totaled R\$3,360.9 million. For further information on our pension plans see Note 20 to our financial statements included in this annual report.

Beginning in 2008, payments under the profit-sharing plan were based both on general goals that evaluate us as a whole and on other goals that evaluate the performance our different business units. Payments are proportionally reduced annually if the goals are not completely achieved.

We recorded profit-sharing expenses of R\$93.5 million, R\$110.5 million and R\$94.4 million in 2019, 2018 and 2017, respectively. We do not have a stock-option plan for our employees.

### **C. Board Practices**

The members of our board of directors are elected at an annual shareholders' meeting to serve a two-year term. Such term may be renewed three consecutive times. We held our 2020 Annual General Meeting on April 28, 2020, when our shareholders elected new members to our board of directors. Their term of office is expected to commence on May 14, 2020. Our next annual shareholders' meeting will be held in April 2021. Our board of directors ordinarily meets once a month or when called by a majority of the directors or the chairman. See "Item 6.A. Directors and Senior Management—Board of Directors."

Our board of executive officers is composed of six executive officers appointed by our board of directors for a two-year term. Such term may be renewed three consecutive times. Although our bylaws provide that the meetings of our board of executive officers shall be held at least twice a month, meetings are held on a weekly basis. See "Item 6.A. Directors and Senior Management—Board of Executive Officers."

None of our directors and/or executive officers is a party to an employment contract providing for benefits upon termination of employment. Those directors and officers who are also our employees will remain as our employees after their tenure as directors and/or officers, in this case, maintaining all benefits granted to our employees.

### **Fiscal Committee (Conselho Fiscal)**

Our fiscal committee, which is established on a permanent basis, consists of a minimum of three and a maximum of five members and generally meets once a month. Our fiscal committee currently consists of five sitting members and four alternates, since a fifth alternate elected by the minority shareholders resigned in July 2019. All of the current members of our fiscal committee were elected in the shareholders' meeting held on April 29, 2019, except Ângelo Luiz Moreira Grossi and Andréa Martins Botaro, who joined our fiscal committee on November 26, 2019. Their tenure will end on May 12, 2020, when the members elected at our annual shareholders' meeting held on April 28, 2020 are expected to take office. The primary responsibility of the fiscal committee, which is independent from management and from the external auditors appointed by our board of directors, is to review our financial statements and report on them to our shareholders.

The following are the names, ages, position, date of election and brief biographical descriptions of the current and alternate members of our fiscal committee:

Fiscal Committee Members	Age	Position	Date Elected
Humberto Macedo Puccinelli	62	Member	April 29, 2019
Pablo Andres Fernandez Uhart	46	Member	April 29, 2019
Manoel Victor de Azevedo Neto	68	Member	April 29, 2019
Ângelo Luiz Moreira Grossi	39	Member	November 26, 2019
Alexandre Pedercini Issa <sup>(1)</sup>	38	Member	April 29, 2019
Marcio Cury Abumussi	51	Alternate	April 29, 2019
Cassiano Quevedo Rosas de Ávila	42	Alternate	April 29, 2019
Nanci Cortazzo Mendes Galuzio	57	Alternate	April 29, 2019
Andréa Martins Botaro	36	Alternate	November 26, 2019

<sup>(1)</sup> Member indicated by the minority shareholders

*Humberto Macedo Puccinelli.* Mr. Puccinelli has been a member of our fiscal committee since April 2011. Mr. Puccinelli holds a degree in Economics from the Pontifical University of São Paulo (*Pontifícia Universidade Católica de São Paulo - PUC-SP*). He worked at the Economy and Planning Secretariat State of São Paulo (*Secretaria de Planejamento e Gestão do Estado de São Paulo*) from 1985 to 1995, at the Health State Department as Assistant Secretary from 1995 to 1996, at the State Treasury from 1996 to 2002, and at the Economy and Planning Secretariat State of São Paulo as Assistant Secretary in 2003. He has been the Technical Assistant of the State Treasury since January 2004.

*Pablo Andrés Fernández Uhart.* Mr. Uhart has been a member of our fiscal committee since April 2017. He holds a Bachelor's degree in Public Administration from Getulio Vargas Foundation (*Fundação Getúlio Vargas – FGV - SP*) and an MBA from Pontifical Catholic University of Rio de Janeiro (*Pontifícia Universidade Católica do Rio de Janeiro – PUC - RJ*). He was also deputy Secretary for Planning and Management of the State of São Paulo and has more than twenty years of experience in finance, having held the positions of Corporate Controller, Head of the Latin America Treasury, Corporate Finance Advisor and Global Risk Manager at Nestlé from 1995 to 2013.

*Manoel Victor de Azevedo Neto.* Mr. de Azevedo Neto has been a member of our fiscal committee since April 2019. He holds a degree in Civil Engineering from the Engineering School of the Armando Álvares Penteado Foundation (*Fundação Armando Álvares Penteado – FAAP*) and is specialist in traffic engineering. He has been advisor to EMAE's CEO since February 2019. He worked at the São Paulo Engineering and Traffic Company (*Companhia de Engenharia de Tráfego de São Paulo – CET*) from 1976 to January 2019, holding the positions of Engineering and Signaling Supervisor from 1990 to 2000, Technical Assistant to the Board of Executive Officers from 2001 to 2002, Chief Operations Officer from 2017 to January 2019. He is a member of the Traffic Division of the São Paulo Engineering Institute and the Traffic Commission of the National Public Transportation Association. He was Deputy Officer and General Coordinator of Normative and Strategic Planning of the National Traffic Department (*Departamento Nacional de Trânsito – DENATRAN*) and Coordinator of the Thematic Engineering and Signaling Chamber from 1990 to 2000. He was Deputy Secretary of Green and the Environment of the São Paulo city government in 2013 and held other positions in the city government from 2006 to 2016.

*Ângelo Luiz Moreira Grossi.* Mr. Grossi has been a member of our fiscal committee since November 2019. He holds a bachelor's degree in Automation and Control Engineering from Federal University of Minas Gerais (*Universidade Federal de Minas Gerais - UFMG*), an MBA degree in Finance from the Brazilian Institute of Capital Markets (*Instituto Brasileiro de Mercado de Capitais - IBMEC*), an MBA degree in Project Management from the Institute of Technological Education (*Instituto de Educação Tecnológica - IETEC*), and a specialization degree in Business Management from the Getúlio Vargas Foundation (*Fundação Getúlio Vargas - FGV*). He was Corporate Production Manager at RHI-Magnesita from November 2004 to March 2012; Project Manager at Grupo J. Mendes (*Ferro + Mineração*, an iron ore company) from March 2012 to May 2015; Operations Manager at Rede Mater Dei de Saúde from 2015 to 2016; Planning, Finance and Investor Relations Officer (CFO) at Brazilian Airport Infrastructure Company (*Empresa Brasileira de Infraestrutura Aeroportuária - INFRAERO*) from June 2016 to January 2019; member of the Fiscal Council of *Aeroportos Brasil Viracopos*, from 2017 to 2018; and member of the Board of Directors of Agricultural Development Company of São Paulo (*Companhia de Desenvolvimento Agrícola de São Paulo - CODASP*) from February to August 2019. Currently, he works as Director of Planning, Management and Finance at Air Transport Department of the São Paulo State government (*Departamento Aeroviário do Estado de São Paulo - DAESP*), and is a member of the Board of Directors of *Desenvolvimento Rodoviário S.A. - DERSA*, a São Paulo State road development company. In 2018, Mr. Grossi was honored with a Certificate of Recognition by GCSM (Global Council of Sales and Marketing) in recognition of the work he carried out at INFRAERO.

*Alexandre Pedercini Issa.* Mr. Pedercini has been a member of our fiscal committee since April 2017. He holds a Bachelor's degree in Administration from Milton Campos College (*Faculdade Milton Campos*) and an MBA in Strategic Business Management from the Foundation for Education and Culture of Minas Gerais (*Fundação Mineira de Educação e Cultura – FUMEC*). He is a member of the Board of Directors of *Banco da Amazônia* and since 2017 has been a member of the Board of Directors of the sanitation company of the State of Minas Gerais (*Companhia de Saneamento de Minas Gerais – COPASA*) from 2011 to 2016, a member of the fiscal committee of the telecommunications provider that is part of the Minas Gerais Energy Company Group (*Companhia Energética de Minas Gerais – CEMIG*) between 2013 and 2015, and member of the board of directors of the Minas Gerais Gas Company (*Companhia de Gás de Minas Gerais*), from 2015 to 2016.

*Marcio Cury Abumussi.* Mr. Abumussi has been a member of our fiscal committee since April 2019. He holds a degree in Mechanical Engineering from Universidade Paulista and a post-graduate degree in Public Management – Management, Accounting and Finance from Fundação Instituto de Pesquisas Contábeis Atuariais – FIPECAFI. Mr. Abumussi was the Head of the Technical Department of the Secretariat of Finance of the State of São Paulo, in which he has held several roles, among which: technical assistant from 1997 to 2001, Head of the technical division from 2001 to 2008, Head of the technical department from 2009 to 2019 and general administrative coordinator in 2017. He is a sitting member of the Fiscal Council of *São Paulo Previdência - PREVCOM*, He was a sitting member of the Fiscal Council of *Companhia Paulista de Securitização – CPSEC* from 2010 to 2017, Fiscal Council of *Companhia Paulista de Processamento de Dados - PRODESP* from 2018 to 2019 and alternate member of the Fiscal Council of *Empresa Paulista de Planejamento Metropolitano S.A. – Emplasa* from 2010 to 2011.

*Cassiano Quevedo Rosas de Ávila.* Mr. Ávila has been a member of our fiscal committee since April 2019. He holds a degree in Law from Sorocaba Law School (FADI), and a graduate degree in Public and State Law from Itu Law School (*Faculdade de Direito de Itu - FADITU*), a graduate degree in Administrative Law from the Pontifical University of São Paulo (*Pontifícia Universidade Católica de São Paulo – PUC/SP*), a graduate degree in Environmental Law from Mackenzie Presbyterian University (*Universidade Presbiteriana Mackenzie*). He also holds a Master’s degree in Public Policies and Management from the Getúlio Vargas Foundation (*Fundação Getúlio Vargas - FGV*). Mr. Ávila is currently the Chief of Staff at the Housing Office of the São Paulo State government, where he accounts for Public-Private Partnerships Group of the *Agência Paulista de Habitação Social - Casa Paulista*. He was advisor at the Sorocaba Association of Engineers and Architects and at *Companhia de Desenvolvimento Habitacional e Urbano de São Paulo – CDHU*. He was also an Administration and Infrastructure Officer in SPTrans.

*Nanci Cortazzo Mendes Galuzio.* Ms Galuzio has been a member of our fiscal committee since April 2019. Ms. Galuzio holds a bachelor’s degree in Law from Pontifical University of São Paulo (*Pontifícia Universidade Católica de São Paulo – PUC/SP*), and a postgraduate degree in Business Law and Business Management Information Systems from the same institution. She also graduated from George Washington University. Currently, she is the Administrative and Financial Director at the *Fundação Florestal* of the Infrastructure and Environment Secretariat of the São Paulo State government. Previously, she worked as Corporate Management Director of *Companhia Paulistana de Securitização* from 2011 to 2013, Legal Manager at Emplasa S.A. from 2003 to 2011. She was a member of the Board of Directors of EMAE from 2014 to 2017 and a member of the Board of Directors of CPOS and of *Develops SP*, both from 2018 to 2019.

*Andréa Martins Botaro.* Ms Botaro has been a member of our fiscal committee since November 2019. She holds a bachelor’s degree in Business Administration from São Camilo University Center (*Centro Universitário São Camilo*). She has been a technical advisor at the Government Secretariat (*Secretaria de Governo*) of the São Paulo State government since June 2016. Ms. Botaro has more than 15 years of experience in the public sector and held positions at the Secretariat of Civil House (*Secretaria da Casa Civil*) of the São Paulo State government from 2014 to 2015; Secretariat of Logistics and Transport (*Secretaria de Logística e Transportes*) from 2007 to 2014; Secretariat of Energy, Water Resources and Sanitation (*Secretaria de Energia, Recursos Hídricos e Saneamento*) from 2005 to 2007; Secretariat of Energy (*Secretaria de Energia*) and São Paulo Energy Company (*Companhia Energética de São Paulo - CESP*) from 2001 to 2002.

We held our Annual General Meeting on April 28, 2020. During the meeting our shareholders also elected (i) Fabio Bernacchi Maia, Pablo Andrés Fernández Uhart, Edson Tomas de Lima Filho, Ângelo Luiz Moreira Grossi and Reginaldo Ferreira Alexandre to be sitting members of our Fiscal Committee; and (ii) Marcio Cury Abumussi, Cassiano Quevedo Rosas de Ávila, Nanci Cortazzo mendes Galuzio, Andréa Martins Botaro and Gisélia da Silva to be alternate members of our Fiscal Committee. Mr. Reginaldo Ferreira Alexandre and Ms. Gisélia da Silva are the members appointed by our minority shareholders, and their appointment is subject to review by our Eligibility and Advisory Committee to ensure that they comply with the relevant requirements of their functions. Their term of office is expected to commence on May 12, 2020.

#### **Audit Committee**

Our bylaws provide for an audit committee to be comprised of three board members, who will cumulatively comply with the requirements of (i) independence, (ii) technical expertise, and (iii) identifying and complying with applicable exemptions in accordance with the United States Securities and Exchange Commission, or the SEC, and New York Stock Exchange, or NYSE, rules. Our Board of Directors determined that Ernesto Rubens Gelbcke qualifies as a financial expert under the SEC rules. The members are appointed by the board of directors and pursuant to our bylaws, the members of our audit committee may be appointed simultaneously to their election to the board of directors or by a subsequent resolution.

The audit committee is mainly responsible for assisting and advising the board of directors in its responsibilities to ensure the quality, transparency and integrity of our published financial information and financial statements. The audit committee is also responsible for supervising all matters relating to the Code of Business Conduct and Ethics, accounting, internal controls, the internal and independent audit functions, compliance, risk management and internal policies, such as the related parties transaction policy. The audit committee and its members have no decision-making powers or executive functions.

The minimum availability required from each member of the audit committee is thirty hours per month. Under our bylaws, the members shall exercise their roles for the same period as their corresponding term of office, or until otherwise resolved by the general shareholders’ meeting or by resolution of the board of directors. In the event that an audit committee member resigns or is removed from office after exercising any portion of his or her term, such member may only rejoin the audit committee at least three years from the end of such member’s term. All of our audit committee members are independent.

The following are the names, positions and dates of election of the members of our audit committee:

<b>Audit Committee Members</b>	<b>Position</b>	<b>Date Elected</b>
Ernesto Rubens Gelbcke	Coordinator and Financial Expert	June 21, 2018
Lucas Navarro Prado	Member	June 21, 2018
Luís Eduardo Alves de Assis	Member	June 21, 2018

We held our Annual General Meeting on April 28, 2020. During the meeting Ernesto Rubens Gelbcke and Luís Eduardo Alves de Assis were not reelected by our shareholders. The new members of our Audit Committee are expected to be elected by our Board of Directors on May 14, 2020.

### **Eligibility and Advisory Committee**

In accordance with Federal Law No. 13,303/16, and pursuant to our bylaws, as approved at the extraordinary shareholders' meeting held on April 27, 2018, we created an Eligibility and Advisory Committee, responsible for supervising the process for the appointment and evaluation of members of our board of directors, executive board and fiscal council.

This committee is composed of up to three members, elected by a general shareholders' meeting, without a fixed term of office. Members must have at least three years' professional experience in public administration, or three years' experience in the private sector in an area in which, or related to which, we operate.

The following are the names, positions and dates of election of the members of our Eligibility and Advisory Committee:

<b>Eligibility and Advisory Committee</b>	<b>Position</b>	<b>Date Elected</b>
Fábio Aurélio Aguilera Mendes	Member	June 3, 2019
Laura Diaz Montiel	Member	June 3, 2019
Paula Cristina Nassif Elias de Lima	Member	June 3, 2019

Members of the Eligibility and Advisory Committee may attend board of directors' meetings where matters related to this committee are discussed and have the right to speak, but not to vote, in accordance with our bylaws.

This committee is also responsible for providing methodological and procedural support to the board of directors to evaluate the performance of officers and other members of statutory committees.

We expect that a written charter addressing the committee's purpose and detailing its required responsibilities will be approved by the board of directors.

### **D. Employees**

As of December 31, 2019, we had 13,945 full-time employees. On December 31, 2019, we had 1,049 interns and 624 apprentices (*aprendizes*), as defined by Federal Law No. 10,097/2000, dated December 19, 2000, as amended.

The following table sets forth the number of our full-time employees by main category of activity and geographic location as of the dates indicated:

	<b>As of December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
<b>Number of employees by category of activity:</b>			
Projects and operations	10,212	10,683	9,176
Administration	2,163	2,074	2,147
Finance	419	433	387
Marketing	1,151	1,259	1,962
<b>Number of employees by corporate division:</b>			
Head office	1,451	1,485	1,342
São Paulo metropolitan region	6,425	6,661	6,353
Regional Systems	6,069	6,303	5,977
<b>Total number of employees</b>	<b>13,945</b>	<b>14,449</b>	<b>13,672</b>

The average tenure of our employees is approximately 19.7 years. We also outsource certain services such as maintenance, delivery of water and sewage bills, meter reading, catering and security. We believe that our relations with our employees are generally satisfactory.

Approximately 62% of all our employees are members of unions. The five main unions that represent our employees are (i) the Union of Workers in Water, Sewage and Environment of the State of São Paulo – SINTAEMA; (ii) workers union of Santos Urban Industries, Baixada Santista region, South Coast and Vale Ribeira – SINTIUS; (iii) the Union of Engineers of the State of São Paulo – SEESP; (iv) the Union of Attorneys of the State of São Paulo – SASP; and (v) the Union of Industrial Technicians of the State of São Paulo – SINTEC.

The collective bargaining agreement signed in 2017 resulted in: (i) a salary increase of 3.7% (which corresponds to the inflation adjustment for the period); (ii) a 7.1% increase in meal vouchers; (iii) a 36.1% increase in food assistance; (iv) a 8.39% increase in nursery stipends; (v) maintenance of the clause from the 2016/2017 collective bargaining agreement which guarantees the employment of 98% of our employees; and (vi) maintenance of the Christmas food stipend on an exceptional basis.

The collective bargaining agreement signed in 2018 resulted in: (i) a salary increase of 1.29% (which corresponds to the inflation adjustment for the period); (ii) a 2% increase in meal vouchers; (iii) a 2% increase in food assistance; (iv) a 2% increase in nursery stipends; (v) maintenance of the clause from the 2017/2018 collective bargaining agreement which guarantees the employment of 98% of our employees; and (vi) maintenance of the Christmas food stipend on an exceptional basis.

The collective bargaining agreement signed in 2019 resulted in: (i) a salary increase of 4.99% (which corresponds to the inflation adjustment for the period); (ii) a 4.99% increase in meal vouchers; (iii) a 4.99% increase in food assistance; (iv) a 38.59% increase in nursery stipends; (v) maintenance of the clause from the 2018/2019 collective bargaining agreement which guarantees the employment of 98% of our employees; and (vi) maintenance of the Christmas food stipend on an exceptional basis. In 2019, 2018 and 2017 there were no strikes. Under Brazilian law, our non-administrative employees are considered “essential employees” and, therefore, are limited in their right to strike.

## E. Share Ownership

As of December 31, 2019, less than 1% of our common shares were owned by our directors and executive officers. See “Item 7.A. Major Shareholder” for more information.

## ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

### A. Major Shareholder

Our outstanding capital stock consists of 683,509,869 common shares, without par value. Under state laws, the State is required to own at least one-half plus one of our outstanding common shares. All of our shareholders, including the State, have the same voting rights. The following table sets forth ownership information for each of our shareholders that beneficially owned 5.0% or more of our common shares and for our officers and directors, individually and as a group, as of December 31, 2019:

	Shares	%
State of São Paulo <sup>(1)</sup>	343,524,291	50.3%
Directors and executive officers of Sabesp	3,000	0.0%
Others	339,982,578	49.7%
<b>Total<sup>(2)</sup></b>	<b>683,509,869</b>	<b>100.0%</b>

- (1) It includes 343,524,285 shares held by the Secretariat of Finance and Planning of the State of São Paulo (*Secretaria da Fazenda e Planejamento do Estado de São Paulo*) and 6 shares held by *Companhia Paulista de Parcerias*, or CPP, which is controlled by the Government of the State of São Paulo.
- (2) As of December 31, 2019, 62% of our outstanding common shares were held by 12,561 registered shareholders in Brazil.

As of December 31, 2019, 15% of our outstanding common shares were held in the United States, in the form of ADSs. According to the ADS depository’s records, which contain information regarding the ownership of our ADSs, there were, as of December 31, 2019, 27 record holders of ADSs in the United States.

On May 12, 2017, we announced that the State of São Paulo’s Privatization Program Board, established by State Law No. 9,361/1996, dated as of July 5, 1996, resolved to take the following measures:

- (i) to proceed with studies aiming to provide alternatives to our current capitalization model;
- (ii) the hiring of the International Finance Corporation, a member institution of the World Bank Group; and
- (iii) the conclusion of an agreement between us and the São Paulo State Government, through the Secretariat of Sanitation and Water Resources (currently Secretariat of Infrastructure and Environment) and the Secretariat of Finance (currently Secretariat of Finance and Planning), to delineate the scope of the International Finance Corporation’s hiring and to govern the relationship between the contracting parties, including the proportional reimbursement of expenses.

The proposed capitalization plan provides for the creation of a new parent company to which the State of São Paulo would transfer all of its ownership interest in us, thus maintaining direct control over our operations through this new parent company. In the process, institutional investors may be invited to participate in the new company’s capital, but the State of São Paulo will in any case retain sufficient shareholding interest to exercise corporate control, as required by law.

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.

## **B. Related Party Transactions**

### ***Transactions with the State of São Paulo***

We have entered into extensive transactions with the State, which is our controlling shareholder, and we expect to continue to do so. The State is our largest customer. It owns some of the facilities that we use in our business, it is one of the governmental entities that regulate our business, and it has assisted us in obtaining financing on favorable terms.

Many of our transactions with the State reflect policies of the State that depend on decisions of elected officials or public servants, and are accordingly subject to change. Among the practices that could change are those described below concerning the provision of State guarantees, and the terms on which we use State-owned reservoirs.

### ***Rendering Services***

We provide water and sewage services to the federal government, state and municipal governments and government entities in the ordinary course of our business. Gross revenue from sales to the State, including State entities, totaled R\$556.6 million in 2019, R\$501.1 million in 2018 and R\$463.0 million in 2017. Our accounts receivable from the State for sanitation services totaled R\$103.3 million, R\$105.7 million and R\$106.0 million, as of December 31, 2019, 2018 and 2017, respectively. In addition, as required by law, we invest our cash and cash equivalents with government financial institutions.

### ***Payment of Pensions***

Pursuant to a law enacted by the State, certain former employees of some State-owned companies that provided services to us in the past and later merged to form our company acquired a legal right to receive supplemental pension benefit payments. These rights are referred to as “Plan G0.” These amounts are paid by us, on behalf of the State, and are claimed by us as reimbursements from the State, as primary obligor. In 2019, 2018 and 2017, we made payments to former employees of R\$184.8 million, R\$180.8 million and R\$179.5 million, respectively in respect of Plan G0. The State made reimbursements in 2019, 2018 and 2017 in the amounts of R\$152.1 million, R\$173.5 million and R\$192.9 million, respectively.

### ***Agreements with the State***

In September 1997, we and the State entered into a memorandum of understanding providing that we would, in effect, apply dividends we declared that were otherwise payable to the State to offset accounts receivable in connection with the provision of water and sewage services to the State and its controlled entities.

On December 11, 2001, we entered into an agreement with the State and the DAEE. Pursuant to this agreement, the State acknowledged and agreed, subject to an audit by a State-appointed auditor, to pay us amounts it owed to us in respect of:

- water and sewage services we provided to governmental agencies, State owned autonomous entities and foundations through December 1, 2001, and that was not offset in accordance with the September 1997 memorandum of understanding, in the total amount of R\$358.2 million. This amount was renegotiated and included in the second amendment to this agreement discussed below; and
- supplemental retirement and pension benefits we paid from March 1986 to November 2001 on behalf of the State to former employees of the State owned companies which merged to form our company; as we did not reach an agreement regarding these amounts, a joint inquiry has commenced in order to ensure agreement between us and the State, in the total amount of R\$320.6 million. This amount was renegotiated and included in the third amendment to this agreement discussed below.

The agreement provided that the DAEE would transfer to us ownership of the Taiacupeba, Jundiá, Biritiba, Paraitinga and Ponte Nova reservoirs (herein after referred to as “the reservoirs”), which form the Alto Tietê system, and that the fair value of these assets would reduce the amounts owed to us by the State.

Under the December 2001 agreement, in 2002, a State-owned construction company (*Companhia Paulista de Obras e Serviços*), or the CPOS, on behalf of the State, and an independent appraisal firm (*Engenharia de Avaliações*), or the ENGEVAL, on our behalf, presented their valuation reports relating to the reservoirs. Under the agreement, the arithmetic average of these appraisals is deemed the fair value of the reservoirs. The appraisals contained in these reports were in the amounts of R\$335.8 million and R\$341.2 million, respectively. Because we had already made investments in these reservoirs by then, the arithmetic average of the appraisals submitted to our board of directors by August 2002, R\$300.9 million, was net of a percentage corresponding to these investments. Our board of directors approved the valuation reports. This amount was updated until September 2008 according to IPCA index and amounted to R\$696.3 million.

Under the December 2001 agreement, for amounts due in excess of the fair value of the reservoirs, the State is to make payments in 114 consecutive monthly installments. The nominal amount owed by the State would not be indexed to inflation or earn interest if there was a delay in concluding the appraisal of fair value. The installments will be indexed on a monthly basis by the IGP-M index, plus 6.0% per year, starting on the date the first installment becomes due.

On October 29, 2003, the Public Prosecution Office of the State of São Paulo (*Ministério Público do Estado de São Paulo*), on behalf of the people of the State, brought a civil public action in a Trial Court of the State of São Paulo (*12 Vara da Fazenda Pública do Estado de São Paulo*) alleging that a transfer to us of ownership of the Alto Tietê system reservoirs from the DAEE would be illegal. An injunction against the transfer of ownership of such reservoirs was granted but was later reversed. However, in October 2004, the court of first instance handed down its judgment on the civil public action and declared the agreement between us, DAEE and State of São Paulo null and void. This decision was suspended by us, and the State treasury and DAEE appealed the decision. On August 23, 2010, the appeal was denied. We have petitioned for clarification of the appeal court’s decision and will seek to take the case to the Supreme Court. The effects of the appeal court’s decision will be suspended until the end of the legal process. We have assessed that it is not probable that we will ultimately prevail in our appeal, which would prohibit the transfer of the reservoirs in payment of the accounts receivable due from the State.

The December 2001 agreement also provided that the legal advisors of the State would carry out specific analyses, which have commenced, to ensure agreement among the parties as to the methodology employed in determining the amount of reimbursement for pension benefits owed to us by the State. The commencement of payments with respect to pension amounts owed to us by the State has been postponed until these analyses are completed, the appraisal report is approved and the credit assignments relating to the transfer of the reservoirs are formalized. As discussed above, the transfer of these reservoirs is currently being disputed and we are not certain whether the transfer will be legally permitted. Under the December 2001 agreement, the first payment was to be made in July 2002.

On March 22, 2004, we and the State entered into a first amendment to the December 2001 agreement. Under this amendment, the State acknowledged that it owed R\$581.8 million to us relating to unpaid accounts receivable from the State until February 29, 2004, and we acknowledged that we owed an aggregate amount of R\$518.7 million to the State as dividends, in the form of interest on shareholders’ equity. Accordingly, we and the State agreed to offset each other’s credit up to the limit of R\$404.9 million, which was an amount adjusted up to February 2004. The outstanding balance of R\$176.9 million (as of February 29, 2004) of the State’s consolidated debt would be paid in consecutive monthly installments from May 2005 until April 2009. These installments would be indexed according to the IPCA index, plus an interest rate of 0.5% per month. Upon the execution of the first amendment, part of the debt that the State owed to us for the use of water and sewage services through February 2004 was offset by the debt that we owed to the State as dividends, in the form of interest on shareholders’ equity. The outstanding balance of R\$113.8 million as dividends in the form of interest on shareholders’ equity that we owed to the State was netted against accounts overdue after February 2004. The first amendment did not amend the provisions of the December 2001 agreement regarding the supplemental retirement and pension benefits we paid from March 1986 to November 2001 on behalf of the State to former employees of the State-owned companies.

On December 28, 2007, we and the State entered into a second amendment to the December 2001 agreement, pursuant to which the State agreed to pay (i) the outstanding balance under the first amendment, in the amount of R\$133.7 million (as of November 30, 2007), in 60 consecutive monthly installments, beginning on January 2, 2008, and (ii) the amount of R\$236.1 million relating to part of the accounts overdue and unpaid from March 2004 through October 2007 regarding the provision of water supply and sewage collection services. As part of this amendment, we agreed to pay during the period from January through March 2008 the outstanding balance of dividends in the amount of R\$400.8 million, in the form of interest on shareholders’ equity, due from March 2004 through December 2006. We paid these amounts as agreed. Under the second amendment, dividends payable by us are no longer required to be applied to offset accounts receivable from the State, and as a result, we are currently unable to determine the amount, if any, of the declared dividends that the State will apply to current and future accounts receivable owed to us by the State or its entities. In addition, pursuant to the second amendment, we and the State agreed on complying with certain mutual obligations relating (i) to the improvement of payment processes and budget management procedures; (ii) the rationalization of the use of water and the volume of water and sewage bills under the responsibility of the State; (iii) the recording of government entities with accounts overdue in a delinquency system or reference file; and (iv) the possibility of interrupting water supply to these entities in case of non-payment of water and sewage bills. Finally, this second amendment did not amend the provisions of the December 2001 agreement regarding the supplemental retirement and pension benefits we paid from March 1986 through November 2001 on behalf of the State to former employees of the State-owned companies that merged to form our Company.

In 2007, we received payment installments from the State in the amount of R\$326.0 million. As of December 31, 2007, our dividends payable to the State, due from 2004 through 2007, were in the amount of R\$552.0 million. We are currently unable to determine the amount, if any, of the declared dividends that the State will apply to current and future accounts receivable owed to us by the State or its entities. The second amendment no longer requires that dividends be applied to offset accounts receivable from the State.

On March 26, 2008, we entered into a commitment agreement (*termo de compromisso*) with the State with the purpose of finding an alternate solution to the deadlock related to the amount owed by the State to us in connection with the supplemental retirement and pension benefits we paid from March 1986 to November 2001 on behalf of the State to former employees of the State-owned companies which merged to form our Company. In this agreement, we and State committed to hiring specialized companies to carry out new valuations of the amounts owed to us by the State and of the reservoirs. An independent consulting firm, FIPECAFI, has been retained to resolve the disagreement and validate the amount we paid from March 1986 through November 2001 on behalf of the State to former employees of the State-owned companies that merged to form our Company, which the State has not yet agreed to reimburse us hereinafter referred to as the “Disputed Reimbursement Amount.” In addition, FIPECAFI performed, together with another independent consulting firm, a new evaluation of the reservoirs that might be transferred to us as amortization of the reimbursement payable by the State to us.

On November 17, 2008, we, the State and DAEE entered into a third amendment to the December 2001 agreement, pursuant to which the State recognized a debt balance payable to us totaling R\$915.3 million, hereinafter referred to as the “Undisputed Reimbursement Amount,” as adjusted based on the IPCA. We accepted on a provisional basis the reservoirs as part of the payment of the Undisputed Reimbursement Amount and offered to the State a provisional settlement, recognizing a credit totaling R\$696.3 million, corresponding to the value of the reservoirs located in the Alto Tietê region. We and the State have agreed that the final offset will only be recorded when the effective transfer of the reservoirs is recorded at the Real Estate Registry. The outstanding balance of Undisputed Reimbursement Amount, amounting to R\$219.0 million, was being paid by the State in 114 consecutive monthly installments and was totally paid in 2018.

On March 18, 2015, we, the State and DAEE, with the intervention of the Department of Sanitation and Water Resources, executed a term of agreement, in the amount of R\$1,012.3 million, of which R\$696.3 million refers to the principal amount and R\$316.0 million refers to the monetary adjustment of the principal through February 2015.

The principal amount is payable in 180 installments, as follows:

- The first 24 installments were settled by an immediate transfer of 2,221,000 preferred shares issued by the São Paulo Company of Electric Power Transmission (*Companhia de Transmissão de Energia Elétrica Paulista- CTEEP*), totaling R\$87.2 million, based on the share closing price as of March 17, 2015. As of April 20, 2016, we sold these shares for R\$111.1 million; and
- The amount of R\$609.1 million, payable in 156 monthly installments, was adjusted by IPCA until the initial payment date on April 5, 2017, after which installments are adjusted by IPCA plus simple interest of 0.5% per month.

Given that the lawsuit regarding the transfer of the reservoirs is pending final and unappealable court decision, the agreement also provides for the following:

- If transfer is possible and the reservoirs are effectively transferred to us and registered at the authority’s office, we will reimburse to the State the amounts paid in replacement of the reservoirs (principal amount) in 60 monthly installments adjusted by IPCA until the payment date of each installment; and
- If the transfer of the reservoirs is not possible, the State will pay us, in addition to the principal amount, the inflation adjustment credit in the amount of R\$316.0 million in 60 installments, following payment of the principal amount. The amount will be adjusted based on IPCA at the start date of payments and, as of that date, IPCA will be incurred plus 0.5% simple interest rate/month over the amount of each installment.

In addition to the Undisputed Reimbursement Amount, there is an outstanding balance relating to the Disputed Reimbursement Amount. As of December 31, 2019, the Disputed Reimbursement Amount amounted to R\$1.195.2 million, but due to the uncertainty regarding the recovery of the amount our management decided not to recognize the reimbursements. See Note 10 to our financial statements included in this annual report regarding the Disputed Reimbursement Amount. We and the State have agreed that the dispute relating to the Disputed Reimbursement Amount will not prevent us from carrying out the commitments made in the December 2001 agreement.

In addition, the third amendment to the December 2001 agreement provides for the regularization of the monthly flow of benefits. While we are liable for the monthly flow of benefits to the former employees of the state-owned companies that merged to form our Company, the State shall reimburse us based on criteria identical to those applied when determining the Undisputed Reimbursement Amount. Should there be no preventive court decision, the State will assume the flow of monthly payment of benefits portion deemed as undisputed.

Finally, the third amendment to the December 2001 agreement established that the Public Attorney's Office of the State of São Paulo, or the Public Attorney's Office, would issue a revised interpretation of the calculation and eligibility criteria applicable to the Disputed Reimbursement Amount. At that time, we believed that the Public Attorney's Office would issue a revised interpretation which would have helped us bring the negotiations with the State to a conclusion. However, contrary to our expectations, the Public Attorney's Office interpretation of the calculation and eligibility criteria applicable to the Disputed Reimbursement Amount refuted the reimbursement of the largest portion of this amount. As of December 31, 2019, we had made a provision of R\$3.046.3 million in our pension obligations accounts in respect of the pension benefit obligation of Plan G0.

Even though the negotiations with the State are still progressing, we cannot assure you that we will recover the receivables related to the Disputed Reimbursement Amount.

We will not waive the receivables from the State to which we consider ourselves to be legally entitled. Accordingly, we will take all possible actions to resolve the issue at all administrative and court levels. Should this conflict persist, we will take all the necessary actions to protect our interests. On March 24, 2010, we sent to the controlling shareholder the official letter approved by our executive committee, proposing that the matter be discussed at the B3 Arbitration Chamber. In June 2010, we sent a settlement proposal to the Secretary of Treasury, which was denied, and on November 9, 2010, we filed a civil lawsuit against the State of São Paulo seeking full reimbursement of the amounts paid as benefits granted by Law No. 4,819/1958. Regardless of the civil lawsuit, we will continue to actively seek a settlement with the State government.

#### ***Agreement with the State and the city of São Paulo***

On June 23, 2010 the State and the city of São Paulo executed an agreement in the form of a *convênio*, to which we and ARSESP consented, 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. The principal terms of this *convênio* were as follows:

- the State and the city of São Paulo would execute a separate agreement with us, granting us exclusive rights to provide water and sewage services in the city of São Paulo;
- ARSESP would regulate and oversee our activities regarding water and sewage services in the city of São Paulo, including tariffs;
- a management committee (*Comitê Gestor*), consisting of six members appointed for two-year terms, with the State and the city of São Paulo given the right to appoint three members each, would be responsible for planning water and sewage services for the city and for reviewing our investment plans; and
- we may participate in management committee meetings but may not vote.

In application of the *convênio*, we executed a separate contract with the State and the city of São Paulo, also dated June 23, 2010, to regulate the provision of these services for the following 30 years. The principal terms of this contract are as follows:

- The total investment stated in the contract must be equal to 13% of gross revenues from the provision of services to the city of São Paulo, net of the taxes on revenues.
- We must transfer 7.5% of the gross revenues obtained from providing sanitation services in the municipality of São Paulo 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. In April 2013, ARSESP postponed the application of such municipal charges based on a request from the São Paulo State Government to analyze, among other things, methods to reduce the impact on consumers. In May 2014 ARSESP maintained the suspension of Resolution 407/2013 until the results are obtained in the revision of the contract signed between us, the city and the State of São Paulo, thereby delaying the authorization to pass the charge through to consumers on the service bill.

- Our investment plan must be compatible with the sanitation plans of the State, the city of São Paulo and, if necessary, the Metropolitan region.
- ARSESP will ensure that the tariffs will adequately compensate us for the services we provide and that tariffs may be adjusted in order to restore the original balance between each party's obligations and economic gain (*equilíbrio econômico financeiro*).

We currently have an investment plan in place that reflects our obligations under the *convênio* and addresses their compatibility with the sanitation plans of the State, the city of São Paulo and, if necessary, the São Paulo metropolitan region. The investment plan is not irrevocable and is reviewed every four years by our management committee. We draft a detailed work plan every two years, particularly with respect to the investments to be executed in the subsequent period. In December 2016, we concluded the first four-year revision of our contract with the city of São Paulo, which altered our service quality, investment and investment tracking targets. However, the issue of the 7.5% charge was not discussed.

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.

On May 24, 2018, as a result of the final result of the Second Ordinary Tariff Revision, we filed a reconsideration request as well as a clarification and revision request with ARSESP. As part of the clarification and revision request, we requested that ARSESP provide a revision of the calculation of the financial component related to municipal funds. This administrative appeal was denied by ARSESP on February 28, 2019. For more information, see "Item 4.B. Business Overview—Tariffs—Tariff Readjustment and Revisions."

### **Dividends**

We regularly pay dividends to our shareholders, including the State of São Paulo. In the past, we have withheld part of the dividends to which the State was entitled in order to offset it against our pending receivables from the State as described above.

In accordance with our agreements with the State, we do not anticipate that we will withhold dividends to which the State was entitled in order to offset it against our pending receivables from the State in the near future.

### **Government Guarantees of Financing**

In some situations, the federal government, the State or government agencies guarantee our performance under debt- and project-related agreements.

Furthermore, the federal government has guaranteed, and the State has provided a counter-guarantee, in respect of the financial agreements we entered into with the IADB (i) in 1992 and 2000 for the total original aggregate amount of US\$600.0 million related to the financing of the first and second phases of the Tietê River recovery project to reduce pollution; and (ii) in 2010 for the aggregate amount of US\$600 million related to the financing of the third phase of the Tietê River project. The federal government has also guaranteed and the State of São Paulo has provided a counter-guarantee, in respect of the financial agreement we entered with the IBRD in the amount of US\$100 million for the Water Source Program (*Programa Mananciais*).

We also entered into credit agreements with JICA, which were guaranteed by the federal government, with counter-guarantee from the State of São Paulo, for the financing of (i) the Clean Wave Program for the Baixada Santista metropolitan region, on August 6, 2004, for an aggregate principal amount of ¥21,320 million; (ii) the second phase of the Clean Wave Program, in February 2011, for an aggregate principal amount of ¥19,169 million; (iii) the environmental improvement program in the basin of the Billings dam, in October 2010, for an aggregate principal amount of \$6,208 million; and (iv) the Program for Water Loss Reduction, in February 2012, for an aggregate principal amount of ¥33,584 million.

For more information on the aforementioned loans, see "Item 5.B. Liquidity and Capital Resources—Indebtedness Financing."

### ***Use of Reservoirs***

We withdraw water for use in the São Paulo metropolitan region from the Guarapiranga and Billings reservoirs. We do not pay any fees for the use of these reservoirs, although we are responsible for maintaining them and funding their operating costs. The State incurs no operating costs on our behalf.

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 us.

The settlement agreement settled the compensation arrangements between EMAE and our company. It requires us to pay the following amounts to EMAE:

- R\$46.3 million, plus inflation adjustments indexed to the IPCA index, payable in five annual installments from April 2017 through April 2022, plus
- R\$6.6 million, plus inflation adjustments indexed to the IPCA index, payable in 25 annual installments from October 2017 through October 2042.

If we fail to pay any installment to EMAE when due, all remaining amounts to be paid under the agreement will become immediately due and payable.

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. 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 settlement agreement between EMAE and us does not necessarily put an end to the separate lawsuits. For more information, see "Item 3.D. Risk Factors — Risks Relating to Our Control by the State of São Paulo — Our right to withdraw water from the Guarapiranga and Billings reservoirs is being challenged judicially by minority shareholders of EMAE."

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 farther 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.

### ***Agreements with Lower Tariffs***

We have entered into agreements with public entities, including State entities and municipalities, which manage approximately 11,326 properties. Under these agreements, these public entities pay a different tariff which is approximately 25.0% lower than the tariff that applies for the public entities that have not entered into these agreements, provided such entities implement our Program for Rational Use of Water (*Programa de Uso Racional da Água – PURA*), which has a fixed target for reduction or maintenance of water consumption, according to technical evaluations carried out by us. These agreements are valid for a 12-month term with automatic renewal for equal periods. Pursuant to the terms of these agreements, if these entities fail to make any payment on a timely basis to us, we have the right to cancel the agreement, thereby revoking the 25.0% tariff reduction.

### ***Personnel Assignment Agreement among Entities Related to the State Government***

We have personnel assignment agreements with entities related to the State Government, under which the expenses are fully passed on and monetarily reimbursed. The expenses related to personnel assigned by us to other state government entities in 2019, 2018 and 2017 amounted to R\$4.9 million, R\$8.9 million and R\$9.9 million, respectively.

The expenses related to personnel assigned by other entities to us totaled R\$0.1 million in 2019 and 2018. There were no expenses related to personnel assigned by other entities to us in 2017.

### ***Non-operating Assets***

As of December 31, 2019, we had an amount of R\$3.6 million related to a land and lending structures compared to R\$0.1 million as of December 31, 2018.

### ***Transactions with SABESPREV Pension Fund***

SABESPREV is a pension fund we established to provide our employees with retirement and pension benefits. The assets of SABESPREV are independently held, but we nominate 50.0% of SABESPREV's board of directors, including the chairman of the board, who has the deciding vote pursuant to the applicable legislation. Both we and our employees make contributions to SABESPREV pension plans. We contributed R\$22.5 million, R\$20.8 million and R\$19.2 million in 2019, 2018 and 2017, respectively. On May 29, 2001, a federal law was enacted which, among other provisions, limits the amount mixed capital companies, like us, may contribute to their pension plans. Specifically, the ordinary contributions made by us to our pension plans may not exceed the contributions made by the beneficiaries of these plans.

Our original pension plan (the Defined Benefit Plan) has an actuarial deficit. We have commenced studies to manage this deficit and have also created a new, Defined Contribution Plan (SABESPREV Mais). Our new plan was approved by Previc in June 2010, after which our old plan stopped accepting new members. Contributions to the new plan are also shared between plan members and us, and benefits are established based on the balance of the individual member's account when payment on his or her benefit begins. This balance consists of contributions and profitability obtained when applying resources. We intended to have members of the old plan migrate their reserves to the new plan. This migration was interrupted by a judicial order as a result of proceedings brought by representative entities for our employees and ex-employees. In October 2010, the judge presiding over the case pronounced in an interim decision that people and reserves were not allowed to migrate between the plans until a further decision was made. This decision also prevents the plan from charging contributions to account for the deficit for those who remained covered by the original plan. In September 2012, the judge presiding over the case ordered a financial expert inspection and in early 2013 a financial expert was appointed to the case. The results of this inspection were unfavorable to the representative entities for our employees and ex-employees and in 2016 the proceeding was dismissed, revoking the interim decision made in October 2010.

In 2016, participants were again offered the ability to migrate according to the rules established by the regulatory authority. The Retiree and Pensioner Association filed a judicial proceeding questioning the amounts that were transferred from the benefits plan to the individual accounts of the participants who migrated to the Defined Contribution Plan. On March 14, 2018, the judge presiding over the case held that the adjustment of the Defined Benefit Plan's actuarial deficit was permitted and terminated the lawsuit related to the migration process of members from the Defined Benefit Plan to the Defined Contribution Plan.

### ***Compensation of Management***

The compensation paid by us to the members of our board of directors, board of executive officers and fiscal committee amounted to R\$5.3 million, R\$4.1 million and R\$3.8 million in 2019, 2018 and 2017, respectively, and it refers to salaries and other short-term benefits management. An additional R\$1.3 million, R\$0.5 million and R\$0.6 million related to the bonus program was accrued to executive officers in 2019, 2018 and 2017.

For further information on management compensation, see "Item 6.B. Directors and Senior Management—Compensation."

### ***Loan agreement through credit facility***

We hold interests in some companies. Although we do not hold the majority of shares in any of the companies in which we hold interests, we are party to shareholders' agreements which provide for the power of veto with regard to certain management proposals and decisions. Due to our significant influence on these companies by way of shareholders' agreements, for accounting purposes, these companies are accounted for by applying the equity method of accounting.

We entered into a loan agreement with the special purpose enterprise Aquapolo Ambiental S.A. on March 30, 2012 under which we made loan to finance the operation, until the borrowings and financing requested with financial institutions is granted.

As of December 31, 2019, the principal and interest balance of this agreement was R\$35.0 million, recorded as non-current assets under "Other Accounts Receivable."

The loan agreement originally expired on April 30, 2015, was extended to October 30, 2015 and on November 25, 2015 a new amendment changed the payment schedule for three annual installments, the first of which maturing on December 30, 2021 and the last on December 30, 2023.

### ***Pró-Conexão***

In 2012, the State of São Paulo approved a project to subsidize connections to the sewage system for low-income families. Initially intended to last eight years, the project involves capital expenditures of up to R\$349.5 million of which 80% will be provided by the State government and 20% by us. In this period, we expect that this program will create 192,000 new sewage connections benefiting approximately 800,000 people.

As of December 2019, we had completed approximately 28.2 thousand sewage connections under the *Pró-Conexão* program.

### C. Interests of Experts and Counsel

Not applicable.

## ITEM 8. FINANCIAL INFORMATION

### A. Financial Statements and Other Financial Information

See “Item 18. Financial Statements.”

#### Legal Proceedings

We are currently subject to numerous legal proceedings relating to civil, tax, labor, corporate and environmental issues arising in the normal course of our business. Several individual disputes account for a significant part of the total amount of claims against us. Our material legal proceedings are described in Note 19 to our financial statements included in this annual report, and that description is incorporated by reference under this Item.

#### *Civil Public Actions Related to Environmental Matters*

We are subject to administrative and judicial proceedings, including proceedings initiated by the *Companhia Ambiental do Estado de São Paulo* (CETESB), the State of São Paulo Public Prosecutor Office and non-governmental organizations. These proceedings result from alleged environmental damage and relief sought against us includes: (i) cessation of the release of raw sewage into certain local bodies of water; (ii) remedies, in some cases, for environmental damages that have not yet been specified and evaluated by the court’s technical experts; (iii) requirements to install and operate sewage treatment facilities in locations referred to in the civil public actions; and (iv) imposition of a limit on water extracted from the water springs most affected by the water crisis. In certain cases, we are subject to daily fines for non-compliance. In our response to these lawsuits, we note that the installation and operation of sewage treatment facilities in locations referred to in the civil public actions is included in our investment plan. There have already been unfavorable judicial decisions against us and their effects may include: (i) investment in works or services not considered by our long-term investment plan; (ii) early execution of works or services that were considered for execution in future years in our long-term investment plan; (iii) payments related to environmental indemnification; and (iv) a negative impact on our image in national and international markets and in public bodies.

Although we are not able to predict the final outcome of these lawsuits, we believe that the outcome, if unfavorable to us, may have a material adverse effect on us. We recognize provisions for classify certain of these proceedings as defined in Note 3.14 to our financial statements included in this annual report. As of December 31, 2019, we have provisions totaling R\$192.9 million for the matters stated in Note 19 to our financial statements included in this annual report.

#### Other Legal Proceedings

On December 30, 2003, the Civil Entity Coordination Committee of Piracicaba filed a civil class action against us, the National Water Agency and the State of São Paulo Treasury Department seeking, among other claims relief for: (i) the termination of use of 31 m<sup>3</sup>/s of water from one of the municipality’s reservoirs; (ii) the creation of a schedule to regulate water use and withdrawal from the Piracicaba river basin by the Cantareira system to eliminate possible damage to populations downstream; and (iii) the development of an environmental impact study on the Cantareira system evaluating the impact of water use and withdrawal on the various basins that constitute the system. In August 2012, this civil public action was decided favorably for us in two lower courts, and the plaintiff’s appeal to a higher court seeking special and extraordinary recourse was denied based on inadmissibility. We are currently awaiting a court decision on the action brought by the plaintiff against the decisions of inadmissibility cited. The amount involved in this proceeding as of December 31, 2019 is R\$26.6 billion. We have assessed that we do not have a current obligation as a result of a past event, and accordingly have not made any provisions.

On May 18, 2016, the Public Prosecutor’s Office of the State of São Paulo filed a Public Civil Action combined with a preliminary injunction, requesting, in summary that: (i) we cease to dispose of untreated domestic and industrial sewage through a marine outfall in Santos Bay, under penalty of paying a daily fine; and (ii) we pay environmental and public health damages as a result of the disposal of untreated sewage in Santos Bay, calculated as of the date of installation of the marine outfall until the date we implement more advanced sewage treatment mechanisms. In October 2017, the lawsuit was dismissed by the lower court. The Prosecutor’s Office appealed the decision, which was rejected in November 2019. Subsequently, the Prosecutor’s Office appealed to the High Court of Justice and the Supreme Court, which are currently reviewing the admissibility of the case. The amount involved in this proceeding as of December 31, 2019 is R\$2.9 billion. We have assessed that we do not have a current obligation as a result of this past event, and accordingly have not made any provisions.



## **Dividends and Dividend Policy**

### ***Amounts Available for Distribution***

At each annual shareholders' meeting, the board of directors is required to recommend the allocation of net profits for the preceding fiscal year. For purposes of Brazilian Corporate Law, net profits are defined as net income after income tax and social contribution tax for such fiscal year, net of any accumulated losses from prior fiscal years and any amounts allocated to employees' and management's participation in our profits. In accordance with Brazilian Corporate Law, the amounts available for dividend distribution are the amounts equal to half of the net profit as increased or reduced by:

- the amount intended to form the legal reserve; and
- the amount intended to form the reserves for contingencies and any written-off amounts of the same reserves formed in previous fiscal years.

We are required to maintain a legal reserve, to which we must allocate 5.0% of net profits for each fiscal year until the amount for such reserve equals 20.0% of our paid-in capital. However, we are not required to make any allocations to our legal reserve in respect of any fiscal year in which the aggregate amount of the legal reserve plus our other established capital reserves exceeds 30.0% of our capital. Net losses, if any, may be offset against the legal reserve. As of December 31, 2019, 2018 and 2017 the balance of our legal reserve was R\$1,368.4 million, R\$1,200.0 million and R\$1,058.3 million, respectively, which was equal to 9.1%, 8.0% and 10.6%, respectively, of our capital.

Brazilian Corporate Law also provides for two discretionary allocations of net profits that are subject to approval by the shareholders at each annual shareholders' meeting. First, a percentage of net profits may be allocated to a contingency reserve for anticipated losses that are deemed probable in future years. Any amount so allocated in a prior year must be either reversed in the fiscal year in which the loss was anticipated if such loss does not in fact occur, or written off in the event that the anticipated loss occurs. Second, if the mandatory distributable amount exceeds the sum of realized net profits in any given year, such excess may be allocated to an unrealized revenue reserve. Under Brazilian Corporate Law, realized net profits is defined as the amount of net profits that exceeds the net positive result of equity adjustments and profits or revenues from operations with financial results after the end of the next succeeding fiscal year.

Under Brazilian Corporate Law, any company may authorize the creation of a discretionary reserve in its bylaws. Bylaws which authorize the allocation of a percentage of a company's net income to the discretionary reserve must also indicate the purpose, criteria for allocation and maximum amount of the reserve. We may also allocate a portion of our net profits for discretionary allocations for plan expansion and other capital investment projects, the amount of which would be based on a capital budget previously presented by management and approved by our shareholders. Under Law No. 10,303/2001 of October 31, 2001, as amended, capital budgets for more than one year must be revised at each annual shareholders' meeting. After completion of the relevant capital projects, we may retain the allocation until the shareholders vote to transfer all or a portion of the reserve to capital or retained earnings. As of December 31, 2019, 2018 and 2017 we had an investment reserve of R\$6,098.6 million, R\$3,840.4 million and R\$6,939.3 million, respectively.

The amounts available for distribution may be further increased by a reversion of the contingency reserve for anticipated losses constituted in prior years but not realized. The amounts available for distribution are determined on the basis of our financial statements prepared in accordance with Brazilian GAAP.

The legal reserve is subject to approval by the shareholder vote at our annual shareholders' meeting and may be transferred to capital but is not available for the payment of dividends in subsequent years.

### ***Mandatory Distribution***

Brazilian Corporate Law generally requires that the bylaws of each Brazilian corporation specify a minimum percentage of the amounts available for distribution by such corporation for each fiscal year that must be distributed to shareholders as dividends, also known as the mandatory distributable amount. Under our bylaws, the mandatory distributable amount has been fixed at an amount equal to not less than 25.0% of the amounts available for distribution, to the extent amounts are available for distribution at the end of each given fiscal year.

The mandatory distribution is based on a percentage of adjusted net income, not lower than 25.0%, rather than a fixed monetary amount per share. Brazilian Corporate Law, however, permits a publicly held company, such as us, to suspend the mandatory distribution if the board of directors and the fiscal committee report to the shareholders' meeting that the distribution would be inadvisable in view of the company's financial condition. The suspension is subject to the approval of holders of common shares. In this case, the board of directors must file a justification for such suspension with the CVM. Profits not distributed by virtue of the suspension mentioned above shall be attributed to a special reserve and, if not absorbed by subsequent losses, must be paid as dividends as soon as the financial condition of such company permits such payments. As of the date of this annual report, we do not intend to suspend the distribution of dividends during the ongoing COVID-19 pandemic.

## ***Payment of Dividends***

We are required by Brazilian Corporate Law and by our bylaws to hold an annual shareholders' meeting by the fourth month after the end of each fiscal year at which, among other things, the shareholders have to decide on the payment of an annual dividend when profits were accrued. The decision to distribute annual dividends is based on the financial statements prepared for the relevant fiscal year. Under Brazilian Corporate Law, dividends generally are required to be paid within 60 days following the date the dividend was declared, unless a shareholders' resolution sets forth another date for payment, which, in either case, must occur prior to the end of the fiscal year in which the dividend was declared. A shareholder has a three year period from the dividend payment date to claim dividends (or interest payments on shareholders' equity as described under "—Record of Dividend Payments and Interest on Shareholders' Equity") distributed on his or her shares, after which the amount of the unclaimed dividends reverts to us. The depositary will set the currency exchange date to be used for payments to ADS holders as soon as practicable upon receipt of those payments from us.

Our bylaws allow us to pay interim dividends from preexisting and accumulated profits related to the current or preceding fiscal year.

In general, shareholders who are not residents of Brazil must register with the Central Bank to have dividends, sales proceeds or other amounts with respect to their shares eligible to be remitted outside of Brazil. The common shares underlying our ADSs are held in Brazil by Banco Bradesco S.A., as the custodian and agent for the depositary, which is the registered owner of the common shares underlying the ADSs. Our current registrar is Banco Bradesco S.A. The depositary electronically registers the common shares underlying the ADSs with the Central Bank and, therefore, is able to have dividends, sales proceeds or other amounts with respect to these shares eligible to be remitted outside Brazil. See "Item 10.D. Exchange Controls."

Payments of cash dividends and distributions, if any, will be made in Brazilian *reais* to the custodian on behalf of the depositary, which will then convert such proceeds into U.S. dollars and will cause such U.S. dollars to be delivered to the depositary for distribution to holders of ADSs. See "Item 10.D. Exchange Controls." Under current Brazilian law, dividends generally paid to shareholders who are not Brazilian residents, including holders of ADSs, will not be subject to Brazilian withholding income tax, except for dividends declared based on profits generated prior to December 31, 1995. See "Item 10.E. Taxation."

## ***Record of Dividend Payments and Interest on Shareholders' Equity***

Brazilian corporations are permitted to distribute dividends in the form of a tax-deductible notional interest expense on shareholders' equity in accordance with Law No. 9,249/1995 of December 26, 1995, as amended. The amount of tax-deductible interest that may be paid is calculated by applying the daily *pro rata* variation of the government's long-term interest rate (TJLP) on the shareholders' equity during the relevant period and cannot exceed the greater of:

- 50.0% of net income (before taking into account such distribution and any deductions for income taxes and after taking into account any deductions for social contributions on net profits) for the period in respect of which the payment is made; or
- 50.0% of earnings reserves and retained earnings.

Any payment of interest on shareholders' equity to holders of ADSs or common shares, whether or not they are Brazilian residents, is subject to Brazilian withholding income tax at the rate of 15.0% or 25.0% if the beneficiary is resident in a low tax jurisdiction (tax haven). See "Item 10.E. Taxation." The amount paid to shareholders as interest on shareholders' equity, net of any withholding tax, may be included as part of the mandatory dividends distributable amount as prescribed in Brazilian Corporate Law.

Dividends and interest on shareholders' equity over the minimum established in a company's bylaws are recognized when approved by the shareholders in the general meeting. Consequently, the amount of R\$799.8 million recognized as of December 31, 2019 correspond to the minimum established by law of 25.0% of the net income and the difference of R\$141.2 million will be recorded in 2020 after the annual shareholders' meeting.

## Distributions of dividends

The following table sets forth the distributions of dividends that we made to our shareholders in respect of our 2019, 2018 and 2017 earnings. All these amounts distributed or to be distributed were or will be in the form of interest on shareholders' equity.

<b>Year ended December 31,</b>	<b>Aggregate amount proposed</b>	<b>Payment Dates</b>	<b>Payment per share</b>	<b>Payment per ADS</b>
	<i>(in millions of reais)</i>			<i>(in reais)</i>
2019*	941.0	June 27, 2020	1.38	1.38
2018	792.2	June 28, 2019	1.16	1.16
2017	703.9	June 26, 2018	1.03	1.03

\* We recorded dividends in the amount of R\$799.8 million, which pursuant to our bylaws is our minimum dividend amount. We expect to pay the dividends on May 29, 2020.

## Dividend Policy

We intend to declare and pay dividends and/or interest on shareholders' equity, as required by Brazilian Corporate Law, our bylaws and our dividend policy. Our board of directors may propose the distribution of interest on shareholders' equity, calculated based on our semiannual or quarterly financial statements. The declaration of dividends is annual, including dividends in excess of the mandatory distribution, and requires approval by the vote of the majority of the holders of our common shares. The proposed distribution of dividends should consider (i) the need for investments to universalize basic sanitation services; (ii) the achievement of our corporate purpose, as set forth in our bylaws; (iii) the cash generation and cash requirements; and (iv) our economic and financial sustainability. The amount of any distributions will depend on many factors, such as our results of operations, financial condition, cash requirements, prospects and other factors deemed relevant by our board of directors and shareholders. Within the context of our tax planning, we may in the future continue to determine that it is in our best interest to distribute interest on shareholders' equity.

## B. Significant Changes

Other than as disclosed in this annual report, no significant change has occurred since the date of the audited financial statements included in this annual report.

## ITEM 9. THE OFFER AND LISTING

### A. Offer and Listing Details

#### Market for our Common Shares

Our common shares have been listed on the São Paulo Stock Exchange (B3) under the trading symbol "SBSP3" since June 4, 1997 and, starting on April 24, 2002, have been included in the *Novo Mercado* segment of that exchange.

#### Market of our ADSs

Our ADSs, each of which represents one of our common shares are listed on the NYSE under the trading symbol "SBS."

### B. Plan of Distribution

Not applicable.

### C. Markets

#### Trading on the Brazilian Stock Exchange

Our common shares are traded on the B3, the only Brazilian stock exchange that trades shares. Trading on the B3 is limited to brokerage firms and a limited number of authorized entities. The CVM and the B3 have discretionary authority to suspend trading in shares of a particular issuer under certain circumstances.

Trading on the B3 is conducted between 10:00 a.m. and 4:55 p.m. or from 10:00 a.m. to 5:55 p.m. (during daylight savings time in Brazil). The B3 also permits trading from 5:30 p.m. to 6:00 p.m. during a different trading period called the "after market." The after-market session is restricted to certain stocks that were traded in the portfolios IBOV and/or IBrX and that were traded on the same day during the regular negotiation. Trading during aftermarket is subject to regulatory limits on price volatility and on the volume of shares transacted through internet brokers.

In order to maintain better quality control over the fluctuation of its index, the B3 has adopted a “circuit breaker” system pursuant to which trading sessions are suspended (i) for a period of 30 minutes whenever the index of this stock exchange falls more than 10% from the index registered for the previous day; (ii) for one hour if the index of this stock exchange falls 15% or more from the index registered for the previous day, after the reopening of trading; and (iii) for a certain period of time to be defined by the B3, if the index of this stock exchange falls 20% or more from the index registered for the previous day, after the reopening of trading. The minimum and maximum price is based on a reference price for each asset, which will be the previous session’s closing quote, when considering the asset at the beginning of the day before the first trade, or the price of the day’s first trade. The asset’s reference price will be altered during the session if there is an auction sparked by the intraday limit being breached. In this case the reference price will become whatever results from the auction.

The B3 settles the sale of shares three business days after they have taken place, without monetary adjustment of the purchase price. The shares are paid for and delivered through a settlement agent affiliated with the B3. The B3 performs multilateral compensation for both the financial obligations and the delivery of shares. According to the B3’s regulations, financial settlement is carried out by the Central Bank’s reserve transfer system. The securities are transferred by the B3’s custody system. Both delivery and payment are final and irrevocable.

Trading on the B3 is significantly less liquid than trading on the NYSE or other major exchanges in the world. Although any of the outstanding shares of a listed company may trade on the B3, in most cases fewer than half of the listed shares are actually available for trading by the public, the remainder being held by a controlling group or by government entities.

Trading on the B3 by a holder not deemed to be domiciled in Brazil for Brazilian tax and regulatory purposes, or a “non-Brazilian holder,” is subject to certain limitations under Brazilian foreign investment regulations. With limited exceptions, non-Brazilian holders may trade on Brazilian stock exchanges in accordance with the requirements of CMN Resolution No. 4,373/2014, which requires that securities held by non-Brazilian holders be maintained in the custody of financial institutions authorized by the Central Bank and by the CVM or in deposit accounts with financial institutions. In addition, Resolution No. 4,373/2014 requires non-Brazilian holders to restrict their securities trading to transactions on the B3 or qualified over-the-counter markets. With limited exceptions, non-Brazilian holders may not transfer the ownership of investments made under Resolution No. 4,373/2014 to other non-Brazilian holders through a private transaction. See “Item 10.E. Taxation—Brazilian Tax Considerations—Taxation of Gains” for a description of certain tax benefits extended to non-Brazilian holders who qualify under Resolution No. 4,373/2014.

### ***The Novo Mercado Segment***

Since April 24, 2002, our common shares have been listed on the Novo Mercado segment of the B3. The Novo Mercado is a listing segment designed for the trading of shares issued by companies that voluntarily undertake to abide by certain additional corporate governance practices and disclosure requirements in addition to those already required under Brazilian law. A company with shares listed on the Novo Mercado must follow good practices of corporate governance. These rules generally increase shareholders’ rights and enhance the quality of information provided to shareholders. On April 18, 2002, June 19, 2006, April 23, 2012 and April 27, 2018 our shareholders approved changes to our bylaws to comply with the Novo Mercado requirements.

In addition to the obligations imposed by current Brazilian law, a company listed on the *Novo Mercado* is obligated to, among others:

- maintain only common shares;
- hold public offerings of shares in a manner favoring diversification of the company’s shareholder base and broader access to retail investors;
- grant tag along rights for all shareholders in connection with a transfer of control of the company;
- limit the term of all members of the board of directors to two years;
- hold a tender offer by the company’s controlling shareholder (the minimum price of the shares to be offered will be determined by an appraisal process) if it elects to delist from the Novo Mercado, unless a waiver is granted by the company’s shareholders;
- maintain a related party transactions policy, including (i) the criteria to be followed in the performance and approval of related party transactions, (ii) the procedures for identifying conflicts of interest and establishing voting restrictions for conflicted shareholders, directors and executive officers, and (iii) the procedures for identifying related parties and related party transactions;
- the chairman of the board of directors is prohibited from simultaneously holding the position of chief executive officer;

- the board of directors must disclose its opinion on takeover proposals within 15 days from the presentation of the proposal;
- relevant facts, notices to market or to shareholders and press releases must be made in English simultaneously with the disclosure made in Portuguese;
- ensure that at least two or 20.0% (whichever is greater) of the members of the board of directors are independent, as defined under the Novo Mercado regulation;
- maintain a minimum free float of at least (i) 25.0% of the capital stock of the company, or (ii) 15.0% of the capital stock of the company, in the event that the average daily trading volume is equal to or greater than R\$25.0 million;
- the company must have an internal audit committee;
- disclose information on the share ownership of controlling shareholders and certain related parties on a monthly basis;
- resolve and require the shareholders, directors, and members of the fiscal committee of the company to resolve any and all disputes among them by arbitration before the Chamber of Market Arbitration (*Câmara de Arbitragem do Mercado*); and
- the company must adopt and publish a code of conduct approved by the board of directors, as well as, policies for (i) compensation; (ii) election of board and committee members; (iii) risk management; (iv) related party transactions; and (v) the purchasing and trading of securities.

Companies already listed in the Novo Mercado segment have until April 2021 to make the necessary changes in order to comply with these new rules. We are working to implement such changes and believe that such implementation will be completed by the April 2021 deadline.

#### *Regulation of Brazilian Securities Markets*

The Brazilian securities markets are principally governed by Law No. 6,385/1976 of December 7, 1976, and the Brazilian Corporate Law, each as amended and supplemented, and by regulations issued by the CVM, which has regulatory authority over the stock exchanges and securities markets generally, by the CMN, and by the Central Bank, which has licensing authority over brokerage firms and regulates foreign investment and foreign exchange transactions. These laws and regulations, among others, provide for disclosure requirements applicable to issuers of traded securities, protection of minority shareholders and criminal penalties for insider trading and price manipulation. They also provide for licensing and oversight of brokerage firms and governance of the Brazilian stock exchanges. Nevertheless, the Brazilian securities markets are not as highly regulated and supervised as the U.S. securities markets.

Under Brazilian Corporate Law, a company is either public (*companhia aberta*), such as we are, or closely held (*companhia fechada*). All public companies, including us, are registered with the CVM and are subject to reporting requirements. A company registered with the CVM may have its securities traded on the Brazilian stock exchanges or in the Brazilian over-the-counter market. Our common shares are listed and traded on the B3 and may be traded privately subject to certain limitations.

To be listed on a Brazilian stock exchange a company must apply for registration with the CVM and the stock exchange where the head office of the company is located.

We have the option to ask that trading in our securities on the B3 be suspended in anticipation of a material announcement. Trading may also be suspended on the initiative of the B3 or the CVM, among other reasons, based on or due to a belief that a company has provided inadequate information regarding a material event or has provided inadequate responses to the inquiries by the CVM or the São Paulo Stock Exchange.

The Brazilian over-the-counter market consists of direct trades between individuals in which a financial institution registered with the CVM serves as intermediary. No special application, other than registration with the CVM, is necessary for securities of a public company to be traded in this market. The CVM requires that it be given notice of all trades carried out in the Brazilian over-the-counter market by the respective intermediaries.

Trading on the B3 by non-residents of Brazil is subject to limitations under Brazilian foreign investment and tax legislation. The Brazilian custodian for our common shares underlying the ADSs must, on behalf of the depositary for our ADSs, obtain registration from the Central Bank to remit U.S. dollars abroad for payments of dividends, any other cash distributions, or upon the disposition of the shares and sales proceeds thereto. In the event that a holder of ADSs exchanges ADSs for common shares, the holder will be entitled to continue to rely on the custodian's registration for five business days after the exchange. Thereafter, the holder may not be able to obtain and remit U.S. dollars abroad upon the disposition of our common shares, or distributions relating to our common shares, unless the holder obtains a new registration. See "Item 10.D. Exchange Controls."

**D. Selling Shareholders**

Not applicable.

**E. Dilution**

Not applicable.

**F. Expenses of the Issue**

Not applicable.

**ITEM 10. ADDITIONAL INFORMATION**

**A. Share Capital**

Not applicable.

**B. Memorandum and Articles of Association**

The following is a summary of the material terms of our common shares, including related provisions of our bylaws and Brazilian Corporate Law. This description is qualified by reference to our bylaws and to Brazilian law.

**Corporate Purposes**

We are a mixed capital company (*sociedade de economia mista*) of unlimited duration, incorporated on September 6, 1973, with limited liability, duly organized and operating under Brazilian Corporate Law. As set forth in Article 2 of our bylaws, our corporate purpose is to render basic sanitation services, aimed at the universalization of basic sanitation in the state of São Paulo without harming our long-term financial sustainability. Our activities comprise water supply, sanitary sewage services, urban rainwater management and drainage services, urban cleaning services, solid waste management services and related activities, including the planning, operation, maintenance and commercialization of energy, and the commercialization of services, products, benefits and rights that directly or indirectly arise from our assets, operations and activities. We are allowed to act, in a subsidiary form, in other Brazilian locations and abroad.

**Directors' Powers**

In addition to the general provisions of Brazilian law, our Board of Director's Internal Charter contains the specific provisions set out below regarding a director's power to vote on a proposal, arrangement or contract in which that director has a material interest. Under Brazilian Corporate Law, a director or an executive officer is prohibited from voting in any meeting or with respect to any transaction in which that director or executive officer has a conflict of interest with the company and must disclose the nature and extent of the conflicting interest to be recorded in the minutes of the meeting. In any case, a director or an executive officer may not transact any business with the company, including any borrowing, except on reasonable or fair terms and conditions that are identical to the terms and conditions prevailing in the market or offered by third parties.

According to our Board of Director's Internal Charter, when a matter involves a conflict of interest with ours or a particular interest in the matter, each member of the Board of Directors shall (i) declare his impediment in a timely manner, as soon as he becomes aware of the fact, (ii) refrain from intervening in the matter in discussion or deliberation, (iii) include the fact in the minutes of the meeting, and (iv) abstain from discussions and deliberations.

Under our bylaws, our shareholders are responsible for establishing the compensation we pay to the members of our board of directors, members of the fiscal committee and the executive officers.

Pursuant to Brazilian Corporate Law, each member of our board of executive officers must be a resident in Brazil. Our bylaws do not establish any mandatory retirement age limit.

See also "Item 6.A. Directors and Senior Management."

## Description of Common Shares

### General

Each common share entitles the holder thereof to one vote at our annual or special shareholders' meetings. According to the Brazilian Corporate Law and CVM regulation, our shareholders' meetings must be called by publication of a notice in the *Diário Oficial do Estado de São Paulo*, the official government publication of the State of São Paulo, and in a newspaper of general circulation in our principal place of business (in our case, the publication "*Valor Econômico*"), currently the city of São Paulo, at least fifteen days prior to the meeting. The quorum to hold shareholders' meetings on first call requires the attendance of shareholders, either in person or by proxy, representing at least 25.0% of the shares entitled to vote and, on second call, the meetings can be held with the attendance of shareholders, also either in person or by proxy, representing any number of shares entitled to vote.

Under Brazilian Corporate Law, our common shares are entitled to dividends or other distributions made in respect of our common shares in proportion to their share of the amount available for the dividend or distribution. See "Item 8A. Financial Statements and Other Financial Information—Dividends and Dividend Policy" for a more complete description of payment of dividends and other distributions on our common shares. In addition, upon any liquidation of our Company, our common shares are entitled to our remaining capital after paying our creditors in proportion to their ownership interest in us.

In principle, a change in shareholder rights, such as the reduction of the compulsory minimum dividend, is subject to a favorable vote of the shareholders representing at least one half of our voting shares. Under some circumstances that may result in a change in the shareholder rights, such as the creation of preferred shares, Brazilian Corporate Law requires the approval of a majority of the shareholders who would be adversely affected by the change attending a special meeting called for such reason. It should be emphasized, however, that our bylaws expressly prevent us from issuing preferred shares. Brazilian Corporate Law specifies other circumstances where a dissenting shareholder may also have appraisal rights.

According to Brazilian Corporate Law, neither a company's bylaws nor actions taken at a general meeting of shareholders may deprive a shareholder of certain rights, such as:

- the right to participate in the distribution of profits;
- the right to participate equally and ratably in any remaining residual assets in the event of liquidation of the company;
- the right to supervise the management of the corporate business as specified in Brazilian Corporate Law;
- the right to preemptive rights in the event of a subscription of shares, debentures convertible into shares or subscription bonuses (except in some specific circumstances under Brazilian law); and
- the right to withdraw from the company in the cases specified in Brazilian Corporate Law.

Pursuant to Brazilian Corporate Law and our bylaws, each of our common shares carries the right to one vote at our shareholders' meetings. We may not restrain or deny that right without the consent of the holders of a majority of the shares affected.

Neither Brazilian Corporate Law nor our bylaws expressly address:

- staggered terms for directors;
- cumulative voting, except as described below; or
- measures that could prevent a takeover attempt.

However, under the laws of the State of São Paulo, the State is required to own at least a majority of our outstanding common shares.

According to Brazilian Corporate Law and its regulations, shareholders representing at least 10 percent of our capital, may request that a multiple voting procedure be adopted to entitle each share to as many votes as there are board members and to give each shareholder the right to vote cumulatively for only one candidate or to distribute their votes among several candidates. Pursuant to Brazilian Corporate Law, shareholder action must be taken at a shareholders meeting, duly called for and not by written consent.

In addition, shareholders owning at least 15.0% of the capital may request the right to elect, separately a member of the Board of Directors.

### ***Preemptive Rights***

Each of our shareholders has a general preemptive right to subscribe for shares or securities convertible into shares in any capital increase, in proportion to his or her ownership interest in us, except in the event of the grant and exercise of any option to acquire shares of our capital stock. The preemptive rights are valid for a 30-day period from the publication of the announcement of the capital increase. Shareholders are also entitled to sell this preemptive right to third parties. Under Brazilian Corporate Law, we may amend our bylaws to eliminate preemptive rights or to reduce the exercise period in connection with a public offering of shares or an exchange offer made to acquire another company.

In the event of a capital increase by means of the issuance of new shares, holders of ADSs, or of common shares, would, except under circumstances described above, have preemptive rights to subscribe for any class of our newly issued shares. However, an ADS holder may not be able to exercise the preemptive rights relating to the common shares underlying his or her ADSs unless a registration statement under the Securities Act is effective with respect to those rights or an exemption from the registration requirements of the Securities Act is available. See “Item 3.D. Risk Factors—Risks Relating to Our Common Shares and ADSs—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.”

### ***Redemption and Rights of Withdrawal***

Brazilian Corporate Law provides that, under limited circumstances, a shareholder has the right to withdraw his or her equity interest from the company and to receive payment for the portion of shareholder’s equity attributable to his or her equity interest. This right of withdrawal may be exercised by dissenting our shareholders in the event that at least half of all voting shares outstanding authorize us:

- to reduce the mandatory distribution of dividends;
- to merge into another company or to consolidate with another company, subject to the conditions set forth in Brazilian Corporate Law;
- to participate in a centralized group of companies, as defined under Brazilian Corporate Law and subject to the conditions set forth therein;
- to change our corporate purpose;
- to split up, subject to the conditions set forth in Brazilian Corporate Law;
- creating preferred shares or increasing an existing class of preferred shares without maintaining the existing ratio with the remaining class of preferred shares, unless when already set forth in or authorized by the bylaws;
- to transform into another type of company;
- to transfer all of our shares to another company or to receive shares of another company in order to make the company whose shares are transferred a wholly owned subsidiary of such company, known as *incorporação de ações*; or
- to acquire control of another company at a price which exceeds the limits set forth in Brazilian Corporate Law.

The right of withdrawal lapses 30 days after publication of the minutes of the shareholders’ meeting that approved a corporate action described above. We would be entitled to reconsider any action giving rise to withdrawal rights within 10 days following the expiration of such rights if the withdrawal of shares of dissenting shareholders would jeopardize our financial condition. Brazilian Corporate Law allows companies to redeem their shares at their economic value, subject to the provisions of their bylaws and certain other requirements. Our bylaws currently do not provide that our capital stock will be redeemable at its economic value and, consequently, any redemption pursuant to Brazilian Corporate Law would be made based on the book value per share, determined on the basis of the last balance sheet approved by the shareholders. However, if a shareholders’ meeting giving rise to redemption rights occurred more than 60 days after the date of the last approved balance sheet, a shareholder would be entitled to demand that his or her shares be valued on the basis of a new balance sheet dated within 60 days of such shareholders’ meeting.

In addition, the rights of withdrawal in the third, fourth and eighth bullet points above may not be exercised by holders of shares if such shares (i) are liquid, defined as being part of the Bovespa index (*Índice Bovespa*) or other stock exchange index (as defined by the CVM), and (ii) are widely held, such that the controlling shareholder or companies it controls have less than 50.0% of our shares. Our common shares are included on the Bovespa index.



This right of withdrawal may also be exercised in the event that the entity resulting from a stock merger as described above, consolidation or spin-off of a listed company fails to become a listed company within 120 days of the shareholders' meeting at which such transaction was approved.

We may cancel the right of withdrawal if the payment amount has a material adverse effect on our finances.

### **Conversion Right**

Not applicable because our capital stock is only comprised of common shares.

### **Special and General Meetings**

Unlike the laws governing corporations incorporated under the laws of the United States' state of Delaware, the Brazilian corporate law does not allow shareholders to approve matters by written consent obtained as a response to a consent solicitation procedure. All matters subject to approval by the shareholders must be approved in a general meeting, duly convened pursuant to the provisions of Brazilian corporate law. Shareholders may be represented at a shareholders' meeting by attorneys-in-fact who are (i) shareholders of the corporation, (ii) a Brazilian attorney, (iii) a member of management or (iv) a financial institution.

General shareholders' meetings shall be called, convened and deliberated under Brazilian Corporate Law to address all matters of interest to the company. General shareholders' meetings may be called by publication of a notice in the *Diário Oficial do Estado de São Paulo* and in a newspaper of general circulation in our principal place of business, and the first call should be made at least 15 days prior to the meeting. In our case, the first call is made 30 days in advance due the issuance of ADRs, as recommended by the CVM. The second call should be made at least 8 days in advance, if quorum is not reached, pursuant to the Brazilian Corporate Law.

At duly called and convened meetings, our shareholders are empowered to take any action regarding our business. Shareholders have the exclusive right, during our annual shareholders' meetings required to be held within 120 days of the end of our fiscal year, to approve our financial statements and to determine the allocation of our net income and the distribution of dividends related to the fiscal year immediately preceding the meeting. The members of our board of directors are generally elected at annual shareholders' meetings. However, according to Brazilian corporate law, they can also be elected at extraordinary shareholders' meetings. At the request of shareholders holding a sufficient number of shares, a fiscal committee can be established and its members elected at any shareholders' meeting.

A special shareholders' meeting may be held concurrently with the annual shareholders' meeting and at other times during the year. Our shareholders may take the following actions, among others, exclusively at shareholders' meetings:

- election and dismissal of the members of our board of directors and our fiscal committee, if the shareholders have requested the setup of the latter;
- approval of the aggregate compensation of the members of our board of directors and board of executive officers, as well as the compensation of the members of the fiscal committee;
- amendment of our bylaws;
- approval of our merger, consolidation or spin-off;
- approval of our dissolution or liquidation, as well as the election and dismissal of liquidators and the approval of their accounts;
- granting stock awards and approval of stock splits or reverse stock splits;
- approval of stock option plans for our management and employees, as well as for the management and employees of other companies directly or indirectly controlled by us;
- approval, in accordance with the proposal submitted by our board of directors, of the distribution of our net income and payment of dividends;
- authorization to delist from the *Novo Mercado* and to become a private company, except if the cancellation is due to a breach of the *Novo Mercado* regulations by management, and to retain a specialized firm to prepare a valuation report with respect to the value of our shares, in any such events;
- approval of our management accounts and our financial statements;

- approval of any primary public offering of our shares or securities convertible into our shares; and
- deliberate upon any matter submitted by the board of directors.

### **Limitations on Rights to Own Securities**

There are no limitations under Brazilian law and our bylaws on the rights of non-residents or foreign shareholders to own securities, including the rights of such non-resident or foreign shareholders to hold or exercise voting rights.

### **Equal Treatment Provisions**

Pursuant to our bylaws and the *Novo Mercado* regulations, any party that acquires our control must extend a tender offer for the shares held by non-controlling shareholders at the same conditions and purchase price paid to the controlling shareholder. In addition, State Law No. 119/1973, which created our Company, requires the State to hold the majority of our shares at all times.

### **Reserves**

#### *General*

The Brazilian Corporate Law provides that all discretionary allocations of “adjusted income” are subject to shareholder approval and may be added to capital or distributed as dividends in subsequent years. In the case of our capital reserve and the legal reserve, they are also subject to shareholder approval; however, the use of their respective balances is restricted to being added to capital or absorbed by losses. They cannot be used as a source for income distribution to shareholders.

#### *Investment Reserve*

Our investment reserve is composed specifically of internal funds for expansion of water and sewage service systems. As of December 31, 2019, we had an investment reserve of R\$6,098.6 million.

#### *Legal Reserve*

Under Brazilian Corporate Law, we are required to record a legal reserve to which we must allocate 5% of the adjusted net income each year until the amount of the reserve equals 20.0% of paid-in capital. Any accumulated deficit may be charged against the legal reserve. As of December 31, 2019, the balance of our legal reserve was R\$1,368.4 million.

### **Arbitration**

In connection with our listing with the *Novo Mercado* segment of the B3, we, our shareholders, directors and officers have undertaken to refer to arbitration any and all disputes or controversies arising out of the *Novo Mercado* rules or any other corporate matters. See “Item 9.C. Markets.” Under our bylaws, any dispute among us, our shareholders and our management with respect to the application of *Novo Mercado* rules, the Brazilian Corporate Law, the application of the rules and regulations regarding Brazilian capital markets, will be resolved by arbitration conducted pursuant to the B3 Arbitration Rules in the Market Arbitration Chamber. Any dispute among shareholders, including holders of ADSs, and any dispute between us and shareholders, including holders of ADSs, will also be submitted to arbitration.

### **Options**

There are currently no outstanding options to purchase any of our common shares.

### **C. Material Contracts**

For a description of the material contracts entered into by the State and us, see “Item 7.B. Related Party Transactions—Transactions with the State of São Paulo” and “Item 7.B. Related Party Transactions—Agreements with the State.”

### **D. Exchange Controls**

The right to convert dividend or interest payments and proceeds from the sale of shares into foreign currency and to remit such amounts outside Brazil is subject to restrictions under foreign investment legislation which generally requires, among other things, that the relevant investments have been registered with the Central Bank and the CVM. Such restrictions on the remittance of foreign capital abroad may hinder or prevent the custodian for our common shares represented by our ADSs or the holders of our common shares from converting dividends, distributions or the proceeds from any sale of these shares into U.S. dollars and remitting the U.S. dollars abroad. Holders of our ADSs could be adversely affected by delays in, or refusal to grant any, required government approval to convert Brazilian currency payments on the common shares underlying our ADS and to remit the proceeds abroad.

Accordingly, the proceeds from the sale of ADSs by ADR holders outside Brazil are not subject to Brazilian foreign investment controls, and holders of the ADSs are entitled to favorable tax treatment under certain circumstances. See “Item 3.D. Risk Factors—Risks Relating to Our Common Shares and ADSs—Investors who exchange ADSs for common shares may lose their ability to remit foreign currency abroad and to obtain Brazilian tax advantages” and “Item 10.E. Taxation—Brazilian Tax Considerations.”

Since March 30, 2015, CMN Resolution No. 4,373/2014, of September 29, 2014, has been in full effect, providing for the issuance of depositary receipts in foreign markets in respect to shares of Brazilian issuers. The CMN Resolution No. 4,373/2014, among other acts, revoked CMN Resolution No. 1,927/1992, of May 18, 1992, CMN Resolution No. 1,289/1987, of March 20, 1987, and CMN Resolution No. 2,689/2000, of January 26, 2000. Under Brazilian law relating to foreign investment in the Brazilian capital markets, foreign investors registered with the CVM and acting through authorized custodial accounts managed by local agents may buy and sell shares on Brazilian stock exchanges without obtaining separate certificates of registration for each transaction. Foreign investors may register their investment under Law No. 4,131/1962, of September 3, 1962, as amended, or under CMN Resolution No. 4,373, of September 20, 2014.

The Law No. 4,131/1962 is the main legislation concerning investment of direct foreign capital and foreign direct equity in companies based in Brazil. It is applicable to any amount of capital that enters Brazil in the form of foreign currency, goods or services. Foreign investment portfolios are regulated by CMN Resolution No. 4,373/2014, CVM Instruction No. 559/2015, of March 27, 2015, which regulates the approval of ADR programs by the CVM, and CVM Instruction No. 560/2015, of March 27, 2015, which regulates the filing of transactions and disclosure of information by foreign investors, all reflecting the provisions of CMN Resolution No. 4,373/2014.

As of January 1, 2016, foreign investors that intend to be registered with the CVM shall fulfill the requirements under CVM Instruction No. 560/2015. In accordance with CMN Resolution No. 4,373/2014 the definition of a foreign investor includes individuals, legal entities, mutual funds and other collective investment entities, domiciled or headquartered abroad. In order to become a 4,373 Holder, a foreign investor must:

- appoint at least one representative in Brazil, with powers to perform actions relating to its investment;
- appoint an authorized custodian in Brazil for its investments, which must be a financial institution or entity duly authorized by the Central Bank or CVM;
- appoint a tax representative in Brazil;
- through its representative in Brazil, register itself as a foreign investor with the CVM;
- through its representative in Brazil, register its foreign investment with the Central Bank; and
- be registered with the Federal Tax Authority (*Secretaria da Receita Federal*), or the “RFB,” pursuant to RFB Normative Instruction No. 1,548/2015, of February 13, 2015, and RFB Normative Instruction No. 1,863/2018, of December 27, 2018.

## **E. Taxation**

This summary contains a description of certain Brazilian and U.S. federal income tax consequences of the purchase, ownership and disposition of common shares or ADSs by a holder.

The summary is based upon the tax laws of Brazil and the federal income tax laws of the United States as in effect on the date of this annual report, which laws are subject to change, possibly with retroactive effect, regarding the U.S. federal income tax, and to differing interpretations. Holders of common shares or ADSs should consult their own tax advisors as to the Brazilian, U.S. or other tax consequences of the purchase, ownership and disposition of common shares or ADSs, including, in particular, the effect of any non-Brazilian, non-U.S., state or local tax laws.

Although there presently is no income tax treaty between Brazil and the United States, the tax authorities of the two countries have had discussions in the past regarding such a treaty. No assurance can be given, however, as to if or when a treaty will enter into force or how it will affect the U.S. holders of common shares or ADSs.

## **Brazilian Tax Considerations**

The following discussion summarizes the principal Brazilian tax consequences of the acquisition, ownership and disposition of common shares or ADSs by a holder that is not domiciled in Brazil for purposes of Brazilian taxation (a “non-Brazilian holder”). It is based on Brazilian laws and regulations as currently in effect, and, therefore, any change in such law may change the consequences described below. Each non-Brazilian holder should consult his or her own tax adviser concerning the Brazilian tax consequences of an investment in common shares or ADSs.

A non-Brazilian holder of ADSs may withdraw them in exchange for common shares in Brazil. Pursuant to Brazilian law, the non-Brazilian holder may invest in the common shares under CMN Resolution 4,373/2014 or as a foreign direct investment under Law No. 4,131/1962.

### ***Taxation of Dividends***

As a result of the tax legislation adopted on December 26, 1995, dividends based on profits generated after January 1, 1996, including dividends paid in kind, payable by us in respect of common shares or ADSs, are exempt from withholding income tax. Dividends relating to profits generated prior to January 1, 1996 may be subject to Brazilian withholding income tax at varying rates, depending on the year the profits were generated.

Beginning in 2008, the Brazilian accounting rules were significantly modified in order to align them with IFRS. After the issuance of such new rules, a transitory tax regime (*regime tributário de transição*), or RTT, was created mainly to ensure neutrality of the new accounting rules in connection with the calculation and payment of corporate taxes on income. Thus, according to the RTT, Brazilian companies had, only for purposes of calculation of their taxable profit, to use the accounting rules and criteria that existed until December 2007.

As a result of the application of the RTT, the accounting profit of a Brazilian company might be significantly higher (or lower) than its taxable profit. Although this specific matter has not been expressly regulated by law, the Brazilian tax authorities issued a normative instruction stating that the amount of dividends paid in excess of the profit of a company determined as per the accounting rules and criteria that existed until December 2007 should be subject to taxation.

On April 14, 2014, Law No. 12,973 was issued to, among other, terminate the Transitory Regime (RTT) and regulate how corporate taxable income should be assessed taking as a starting point the accounting profit calculated according to the new accounting rules introduced as from 2008. Such Law states that dividends related to all accounting profits generated between January 2008 and 31 December 2013 in excess of the established methods and criteria in force in December 31, 2007, are not subject to withholding tax, and does not integrate the calculation of income tax and social contribution. With reference to 2014, the law is not clear, but tax authorities state that dividends paid in excess of the profit of a company determined as per the accounting rules and criteria that existed until December 2007 should be subject to withholding income tax at the rate of 15%, or 25% if the non-Brazilian holder is domiciled in a country or location that does not impose income tax or where the maximum income tax rate is lower than 20% (“Nil or Low Taxation Jurisdiction”). As of 2015, in view of the termination of the RTT, there would be no differences between the accounting and the taxable profit, so that dividends generated since 2015 should be fully paid with no Brazilian withholding tax implications.

### ***Taxation of Gains***

Gains realized on disposition of common shares are subject to income tax in Brazil, regardless of whether the sale or the disposition is made by a non-Brazilian holder to a resident or person domiciled in Brazil. This is due to the fact that the common shares can be considered assets located in Brazil for purposes of Law No. 10,833/2003.

Thus, gains, for purposes of taxation of gains earned in a sale or disposition of common shares carried out on a Brazilian stock exchange (which includes transactions carried out on the organized over-the-counter market):

- are exempt from income tax when assessed on a non-Brazilian holder that (1) has registered its investment in Brazil with the Central Bank under the rules of CMN Resolution No. 4,373/2014, and (2) is not a resident of or domiciled in a Nil or Low Taxation Jurisdiction; or
- in all other cases, including gains realized by a non-Brazilian holder that is not a 4,373 holder and/or is a resident of or domiciled in a Nil or Low Taxation Jurisdiction, subject to income tax at a 15.0% rate. In these cases, a withholding income tax at a rate of 0.005% will be applied and can later be offset with the eventual income tax due on the capital gain.

Any other gains assessed on the disposition of the common shares that are not carried out on the Brazilian stock exchange are subject to income tax at (i) a flat rate of 15% for a 4,373/2014 holder that is not a resident of or domiciled in a Nil or Low Taxation Jurisdiction; (ii) a flat rate of 25.0% for a non-Brazilian holder that is a resident of or domiciled in a Nil or Low Taxation Jurisdiction; (iii) progressive rates that may vary from 15.0% to 22.5% (15.0% for the part of the gain that does not exceed R\$5.0 million, 17.5% for the part of the gain that exceeds R\$5.0 million but does not exceed R\$10.0 million, 20.0% for the part of the gain that exceeds R\$10.0 million but does not exceed R\$30.0 million and 22.5% for the part of the gain that exceeds R\$30.0 million), for all other non-Brazilian holders. If these gains are related to transactions conducted on the Brazilian non-organized-over-the-counter market with intermediation, withholding income tax of 0.005% shall also be applicable and can be offset with the eventual income tax due on the capital gain.

In the case of redemption of securities or capital reduction by a Brazilian corporation, such as ourselves, the positive difference between the amount effectively received by the non-Brazilian holder and the corresponding acquisition cost is treated, for tax purposes, as capital gain derived from disposition of common shares not carried out on a Brazilian stock exchange.

Any exercise of preemptive rights relating to the common shares will not be subject to Brazilian income tax. Any gain on the sale or assignment of preemptive rights relating to the common shares by a non-Brazilian holder of common shares will be subject to Brazilian taxation at the same rate applicable to the sale or disposition of common shares.

There is no assurance that the current preferential treatment for non-Brazilian holders of common shares under CMN Resolution No. 4,373/2014 will continue in the future or that it will not be changed in the future. Reductions in the rate of tax provided for by Brazil's tax treaties do not apply to the tax on gains realized on sales or exchange of common shares.

#### ***Sale of ADSs by non-Brazilian holder to another non-Brazilian holder***

Gains realized outside Brazil by a non-Brazilian holder on the disposition of ADSs should not be subject to Brazilian tax. As mentioned above, according to Law No. 10,833/2003 of December 2003, or Law No. 10,833, the disposition of assets located in Brazil by a non-Brazilian holder, whether to other non-Brazilian holder or Brazilian holders, may become subject to taxation in Brazil. Although we believe that the ADSs do not fall within the definition of assets located in Brazil for the purposes of Law no. 10,833, considering the general and unclear scope of it and the lack of definitive judicial court ruling to act as the leading case in respect thereto, we are unable to predict whether such understanding will ultimately prevail in the courts of Brazil.

In case the ADSs are considered assets located in Brazil, gains on disposition of ADSs by a non-Brazilian holder to a resident in Brazil or even to a non-Brazilian resident may be subject to income tax in Brazil according to the rules described below for ADSs or the tax rules applicable to common shares, as applicable.

#### ***Exchange of ADSs for common shares***

Although there is no clear regulatory guidance, the withdrawal of ADSs in exchange for common shares is not subject to Brazilian income tax to the extent that, as described above, ADSs do not fall within the definition of assets located in Brazil for the purposes of Law No. 10,833/2003.

Upon receipt of the underlying common shares in exchange for ADSs, non-Brazilian holders may also elect to register with the Central Bank the U.S. dollar amount of such preferred shares or common shares as a foreign portfolio investment under Resolution No. 4,373/2014 or as a foreign direct investment under Law No. 4,131/1962.

#### ***Exchange of common shares for ADSs***

With reference to the deposit of common shares in exchange for ADSs, the difference between the acquisition cost of the common shares and the market price of the common shares may be subject to Brazilian income tax at progressive rates that may vary from 15.0% to 22.5% (15.0% for the part of the gain that does not exceed R\$5.0 million, 17.5% for the part of the gain that exceeds R\$5.0 million but does not exceed R\$10.0 million, 20.0% for the part of the gain that exceeds R\$10.0 million but does not exceed R\$30.0 million and 22.5% for the part of the gain that exceeds R\$30.0 million), except for non-Brazilian holders located in a Nil or Low Taxation Jurisdiction, which, in this case, would be subject to income tax at a flat rate of 25.0%. In some circumstances, there may be arguments to claim that this taxation is not applicable in the case of a non-Brazilian holder that is a 4,373 Holder and is not a resident of or domiciled in a Nil or Low Taxation Jurisdiction.

#### ***Discussion on Low or Nil Taxation Jurisdictions***

On June 24, 2008, Law No. 11,727/2008 was enacted defining the concept of a "privileged tax regime" in connection with transactions subject to transfer pricing and thin capitalization rules. In this conception, privileged tax regimes are more comprehensive than tax havens. A "privileged tax regime" is considered to be a jurisdiction which: (i) does not tax income or taxes income at a maximum rate lower than 20.0%; (ii) grants tax advantages to a non-resident entity or individual (a) without requiring substantial economic activity in the jurisdiction of such non-resident entity or individual or (b) to the extent such non-resident entity or individual does not conduct substantial economic activity in the jurisdiction of such non-resident entity or individual; (iii) does not tax income generated abroad, or imposes tax on income generated abroad at a maximum rate lower than 20.0%; or (iv) restricts the ownership disclosure of assets and ownership rights or restricts disclosure about economic transactions. On 2014 the Brazilian Revenue Service Ordinance 488 was published, reducing from 20% to 17% the minimum threshold for certain specific cases. The reduced 17% threshold applies only to countries and regimes aligned with international standards of fiscal transparency in accordance with rules to be established by the Brazilian tax authorities.

Notwithstanding the fact that the “privileged tax regime” concept was enacted in connection with Brazilian transfer pricing and thin capitalization rules, there is no assurance that Brazilian tax authorities will not attempt to apply the concept of privileged tax regimes to other types of transactions, such as investments in the Brazilian financial and capital markets. We recommend that prospective investors consult their own tax advisors from time to time to verify any possible tax consequences of Law No. 11,727/2008 and Ordinance 488/2014.

### ***Interest Attributed to Shareholders’ Equity***

According to Brazilian laws and our bylaws, we may opt to distribute income as interest attributed to shareholders’ equity as an alternative to the payment of dividends.

Distribution of an interest on equity charge attributed to shareholders’ equity with respect to common shares or ADSs as an alternative form of payment to shareholders, including non-Brazilian holders of common shares or ADSs, is subject to Brazilian withholding income tax at the rate of 15% or 25%, in case of a Nil or Low Taxation Jurisdiction holder.

Such payments, subject to certain limitations and requirements, are deductible for Brazilian income tax purposes. This interest is limited to the daily *pro rata* variation of the Federal Government’s long-term interest rate, as determined by the Central Bank from time to time, and cannot exceed the greater of:

- (a) 50% of net income (after the social contribution on net profits and before the provision for corporate income tax, and the amounts attributable to shareholders as interest on net equity) for the period with respect to which the payment is made; or
- (b) 50% of the sum of retained earnings and earnings reserves as of the date of the beginning of the period with respect to which the payment is made.

### ***Other Brazilian Taxes***

There are no Brazilian inheritance, gift or succession taxes applicable to the ownership, transfer or disposition of common shares or ADSs by a non-Brazilian holder, except for gift and inheritance taxes, which are levied by some states of Brazil on gifts made or inheritances bestowed by a non-Brazilian holder to individuals or entities resident or domiciled within such states in Brazil. There is no Brazilian stamp, issue, registration, or similar taxes or duties payable by a non-Brazilian holder of common shares or ADSs.

### ***Tax on foreign exchange transactions (“IOF/Exchange”)***

Pursuant to Decree No. 6,306/2007, dated December 14, 2007, as amended, or Decree No. 6,306/2007, the conversion of Brazilian currency into foreign currency (e.g., for purposes of paying dividends and interest) and the conversion of foreign currency into Brazilian currency may be subject to the Tax on Foreign Exchange Transactions or IOF/Exchange. Currently, for most exchange transactions, the rate of IOF/Exchange is 0.38%. However, exchange transactions carried out for the inflow of funds in Brazil for investments in the Brazilian financial and capital market made by a foreign investor (including a Non-Resident Holder, as applicable) are subject to IOF/Exchange at a 0%. The IOF/Exchange rate will also be 0% for the outflow of funds from Brazil related to these types of investments, including payments of dividends and interest on shareholders’ equity and the repatriation of funds invested in the Brazilian market.

The Brazilian government may increase the rate of the IOF/Exchange to a maximum of 25.0% of the amount of the foreign exchange transaction at any time, but such an increase would not apply retroactively.

### ***Tax on transactions involving bonds and securities (“IOF/Bonds Tax”)***

The IOF may also be imposed on any transactions involving bonds and securities, including those carried out on Brazilian futures and commodities stock exchanges. As a general rule, the rate of this tax for transactions involving common shares or ADSs is currently zero. The executive branch, also by a Presidential Decree, may increase the IOF rate by up to 1.5% per day, but only with respect to future transactions.

## **U.S. Federal Income Tax Considerations**

The following discussion is a summary of certain U.S. federal income tax consequences of the acquisition, ownership and disposition of common shares or ADSs as of the date hereof. This discussion applies only to a beneficial owner of common shares or ADSs that is a “U.S. holder.” As used herein, the term “U.S. holder” means a beneficial owner of a common share or ADS that, for U.S. federal income tax purposes, is:

- an individual who is a citizen or resident of the United States;
- a corporation (or other entity treated as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States, any state thereof or the District of Columbia;
- an estate the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust if it (1) is subject to the primary supervision of a court within the United States and one or more U.S. persons have the authority to control all substantial decisions of the trust or (2) has a valid election in effect under applicable U.S. Treasury Department regulations to be treated as a U.S. person.

If a partnership (or other entity treated as a partnership for U.S. federal income tax purposes) holds common shares or ADSs, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. A U.S. holder that is a partner of a partnership holding common shares or ADSs should consult its tax advisors.

Except where noted, this discussion deals only with common shares or ADSs held as capital assets within the meaning of Section 1221 of the Internal Revenue Code of 1986, as amended, or the Code, and does not deal with U.S. holders that may be subject to special U.S. federal income tax rules, such as dealers in securities or currencies, traders in securities that elect to use a mark-to-market method of accounting for their securities holdings, banks or other financial institutions, tax-exempt organizations, insurance companies, real estate investment trusts, regulated investment companies, persons holding common shares or ADSs as part of a hedging, integrated, conversion or constructive sale transaction or a straddle, persons liable for alternative minimum tax, pass-through entities and investors in a pass-through entity, persons owning 10% or more of our stock, or persons whose “functional currency” is not the U.S. dollar.

This discussion is based upon the provisions of the Code, and existing and proposed U.S. Treasury Department regulations, administrative pronouncements of the Internal Revenue Service, or the IRS, and judicial decisions as of the date hereof. Such authorities may be repealed, revoked or modified so as to result in U.S. federal income tax consequences different from those discussed below, possibly with retroactive effect. In addition, this discussion is based, in part, upon representations made by the Depository to us and assumes that the deposit agreement, and all other related agreements, will be performed in accordance with their terms.

Except as specifically described below, this discussion assumes that we are not a passive foreign investment company, or PFIC, for U.S. federal income tax purposes. Please see the discussion under “—Passive Foreign Investment Company Rules” below. Further, this discussion does not address the U.S. federal estate and gift, alternative minimum tax, Medicare tax on net investment income, state, local or non-U.S. tax consequences of acquiring, holding or disposing of common shares or ADSs.

### ***ADSs***

In general, for U.S. federal income tax purposes, U.S. holders of ADSs will be treated as the owners of the underlying common shares that are represented by such ADSs. Deposits or withdrawals of common shares by U.S. holders for ADSs will not be subject to U.S. federal income tax. However, the U.S. Treasury Department has expressed concerns that parties involved in transactions wherein depository shares are pre-released may be taking actions that are inconsistent with the claiming of foreign tax credits by the holders of ADSs. Accordingly, the analysis of the creditability of Brazilian income taxes described herein could be affected by future actions that may be taken by the U.S. Treasury Department.

### ***Taxation of Dividends***

The gross amount of distributions paid to a U.S. holder (including Brazilian taxes that are withheld, if any, and any payments of interest on shareholders’ equity, as described above under “—Brazilian Tax Considerations”) will be treated as dividend income to the extent paid out of our current or accumulated earnings and profits, as determined under U.S. federal income tax principles. Such income generally will be includable in a U.S. holder’s gross income as ordinary income when actually or constructively received by the U.S. holder, in the case of common shares, or when actually or constructively received by the Depository, in the case of ADSs. Such dividends will not be eligible for the dividends received deduction allowed to corporations under the Code. To the extent that the amount of any distribution exceeds our current and accumulated earnings and profits for a taxable year, the distribution will first be treated as a tax-free return of capital to the extent of the U.S. holder’s adjusted tax basis in the common shares or ADSs, causing a reduction in such adjusted tax basis (and thereby increasing the amount of gain, or decreasing the amount of loss, to be recognized on a subsequent disposition of our common shares or ADSs), and thereafter as capital gain recognized on a sale or exchange. Because we do not expect to maintain calculations of earnings and profits in accordance with U.S. federal income tax principles, U.S. holders should expect that a distribution will generally be treated as a dividend for U.S. federal income tax purposes. Distributions of additional common shares or ADSs to U.S. holders that are part of a pro rata distribution to all of our shareholders generally will not be subject to U.S. federal income tax.

The amount of any dividend paid in *reais* will equal the U.S. dollar value of the *reais* received calculated by reference to the exchange rate in effect on the date the dividend is received by the U.S. holder, in the case of common shares, or by the Depositary, in the case of ADSs, regardless of whether the *reais* are converted into U.S. dollars. If the *reais* received as a dividend are not converted into U.S. dollars on the date of receipt, the U.S. holder will have a tax basis in the *reais* equal to their U.S. dollar value on the date of receipt. Any gain or loss realized on a subsequent conversion or other disposition of the *reais* will be foreign currency gain or loss that is treated as U.S. source ordinary income or loss. If dividends paid in *reais* are converted into U.S. dollars on the day they are received by the U.S. holder or the Depositary, as the case may be, U.S. holders generally should not be required to recognize foreign currency gain or loss in respect of the dividend income. U.S. holders should consult their own tax advisors regarding the treatment of any foreign currency gain or loss if any *reais* received by the U.S. holder or the Depositary or its agent are not converted into U.S. dollars on the date of receipt.

Certain dividends received by certain non-corporate U.S. holders may be eligible for preferential tax rates so long as (1) specified holding period requirements are met, (2) the U.S. holder is not under an obligation (whether pursuant to a short sale or otherwise) to make related payments with respect to positions in substantially similar or related property, (3) the company paying the dividend is a “qualified foreign corporation” and (4) the company is not a PFIC for U.S. federal income tax purposes in the year of distribution or the prior year. We do not believe that we were classified as a PFIC for our prior taxable year nor do we expect to be classified as a PFIC for the current taxable year. We generally will be treated as a qualified foreign corporation with respect to our ADSs so long as the ADSs remain listed on the NYSE. Based on existing guidance, however, it is not entirely clear whether dividends received with respect to the common shares (to the extent not represented by ADSs) will be eligible for this treatment, because the common shares are not themselves listed on a U.S. exchange. U.S. holders should consult their own tax advisors about the application of this preferential tax rate to dividends paid directly on common shares.

Subject to certain complex limitations and conditions (including a minimum holding period requirement), Brazilian income taxes withheld on dividends, if any, may be treated as foreign income taxes eligible for credit against a U.S. holder’s U.S. federal income tax liability. Alternatively, if a U.S. holder does not elect to claim a foreign income tax credit for any foreign taxes paid during the taxable year, all foreign income taxes paid may instead be deducted in computing such U.S. holder’s taxable income. For purposes of calculating the foreign tax credit, dividends paid on our common shares or ADSs will be treated as income from sources outside the United States. For the purposes of the U.S. foreign tax credit limitations, the dividends paid by us should generally constitute “passive category income” for most U.S. holders. The rules governing the foreign tax credit are complex. U.S. holders should consult their tax advisors regarding the availability of the foreign tax credit under their particular circumstances.

### ***Taxation of Capital Gains***

For U.S. federal income tax purposes, a U.S. holder generally will recognize taxable gain or loss on any sale, exchange or other taxable disposition of a common share or ADS in an amount equal to the difference between the U.S. dollar value of the amount realized for the common share or ADS and the U.S. holder’s adjusted tax basis in the common share or ADS, determined in U.S. dollars. Such gain or loss will generally be capital gain or loss. The capital gain or loss will be long-term capital gain or loss if at the time of sale, exchange or other taxable disposition the U.S. holder has held our common shares or ADSs for more than one year. Capital gains of individuals derived with respect to capital assets held for more than one year are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations. Any gain or loss recognized by a U.S. holder will generally be treated as U.S. source gain or loss. Consequently, a U.S. holder may not be able to use the foreign tax credit arising from Brazilian income tax imposed, if any, on the disposition of a common share or ADS unless such credit can be applied (subject to applicable limitations) against U.S. federal income tax due on other income treated as derived from foreign sources.

### ***Passive Foreign Investment Company Rules***

Based upon our current and projected income, assets, activities and business plans, we do not expect the common shares or ADSs to be considered shares of a PFIC for our current fiscal year (although the determination cannot be made until the end of such fiscal year), and we intend to continue our operations in such a manner that we do not expect to be classified as a PFIC in the foreseeable future. However, because the determination of whether the common shares or ADSs constitute shares of a PFIC will be based upon the composition of our income, assets and the nature of our business, as well as the income, assets and business of entities in which we hold at least a 25% interest, from time to time, and because there are uncertainties in the application of the relevant rules, there can be no assurance that the common shares or ADSs will not be considered shares of a PFIC for any fiscal year. If the common shares or ADSs were shares of a PFIC for any fiscal year, U.S. holders (including certain indirect U.S. holders) may be subject to adverse tax consequences, including the possible imposition of an interest charge on gains or “excess distributions” allocable to prior years in the U.S. holder’s holding period during which we were determined to be a PFIC. If we are deemed to be a PFIC for a taxable year, dividends on our common shares or ADSs would not be qualified dividend income eligible for preferential rates of U.S. federal income taxation. In addition, a U.S. holder that owns common shares or ADSs during any taxable year that we are treated as a PFIC would generally be required to file IRS form 8621. U.S. holders should consult their own tax advisors regarding the application of the PFIC rules (including any information reporting requirements in connection therewith) to the common shares or ADSs.



## ***Information Reporting and Backup Withholding***

In general, information reporting requirements will apply to dividends in respect of our common shares or ADSs or the proceeds received on the sale, exchange, or redemption of our common shares or ADSs, in each case to the extent treated as being paid within the United States (and in certain cases, outside of the United States) to a U.S. holder unless a U.S. holder establishes its status as an exempt recipient, and backup withholding may apply to such amounts if the U.S. holder does not establish its status as an exempt recipient or fails to provide a correct taxpayer identification number and certify that such U.S. holder is not subject to backup withholding. The amount of any backup withholding from a payment to a U.S. holder will be allowed as a refund or credit against such U.S. holder's U.S. federal income tax liability provided the U.S. holder timely furnishes the required information to the IRS.

In addition, U.S. holders should be aware that additional reporting requirements apply with respect to the holding of certain foreign financial assets, including stock of foreign issuers which is not held in an account maintained by a financial institution, if the aggregate value of all of such assets exceeds US\$50,000. U.S. holders should consult their own tax advisors regarding the application of the information reporting rules to our common shares and ADSs and the application of these additional reporting requirements for foreign financial assets to their particular situation.

### **F. Dividends and Payments Agents**

Not applicable.

### **G. Statements by Experts**

Not applicable.

### **H. Documents on Display**

We are subject to the periodic reporting and other informational requirements of the U.S. Securities Exchange Act of 1934, as amended and supplemented, or the Exchange Act. Accordingly, we are required to file reports and other information with the SEC. You may inspect and copy reports and other information filed by us at the public reference facilities maintained by the SEC at 100 F Street, N.W., Washington D.C. 20549. Our filings will also be available at the SEC's website at <http://www.sec.gov>. Reports and other information may also be inspected and copied at the offices of the NYSE at 20 Broad Street, New York, New York 10005.

Our website is located at <http://www.sabesp.com.br> and our investor relations website is located at <http://www.sabesp.com.br/investors>. (These URLs are intended to be an inactive textual reference only. They are not intended to be an active hyperlink to our website. The information on our website, which might be accessible through a hyperlink resulting from this URL is not, and shall not be deemed to be, incorporated into this annual report.)

We also furnish to the depositary annual reports in English including audited annual financial statements and reviewed quarterly financial statements in English for each of the first three quarters of the fiscal year. We also furnish to the depositary English translations or summaries of all notices of shareholders' meetings and other reports and communications that are made generally available to holders of common shares.

### **I. Subsidiary Information**

Not applicable.

## ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

### Market Risk

We are exposed to various market risks, in particular, foreign currency risk and interest rate risk. We are exposed to foreign currency risk because a substantial portion of our financial indebtedness is denominated in foreign currencies, primarily the U.S. dollar, while we generate all of our net operating revenues in *reais*. Similarly, we are subject to interest rate risk based upon changes in interest rates, which affect our net financial expenses. For further information on our market risks, see Note 5 to our financial statements included in this annual report.

### Exchange Rate Risk

As of December 31, 2019 and 2018, R\$6,358.8 million and R\$6,669.4 million, or 48.0% and 50.7%, respectively, of our debt obligations were denominated in foreign currencies. As a result, we are exposed to exchange rate risks that may adversely affect our financial condition and results of operations, as well as our ability to meet debt service obligations.

### Exchange Rate Sensitivity

We estimate that the potential loss to us in connection with U.S. dollar and Yen-denominated debt that would have resulted as of December 31, 2019, 2018 and 2017 from each hypothetical instantaneous and unfavorable 1% change in the U.S. dollar and Yen against the *real* would have been approximately R\$63.6 million, R\$66.7 million and R\$56.7 million, respectively. Consistent with these estimates, a hypothetical instantaneous and unfavorable 10% change in this exchange rate would have resulted in losses of approximately R\$635.9 million, R\$666.9 million and R\$567.3 million as of December 31, 2019, 2018 and 2017, respectively.

The fluctuation of the *real* in relation to the U.S. dollar and Yen for the years ended December 31, 2019, 2018 and 2017 were as follows:

	Year ended December 31,		
	2019	2018	2017
	<i>(in percentages)</i>		
Depreciation (appreciation) of the <i>real</i> in relation to the U.S. dollar	4.0	17.1	1.5
Depreciation (appreciation) of the <i>real</i> in relation to the Yen	5.3	20.0	5.4

We have not contracted derivative financial instruments in the years ended December 31, 2019, 2018 and 2017.

For further information regarding foreign currency risk, see Note 5.1(a) to our 2019 financial statements included in this annual report.

As of December 31, 2019, 2018 and 2017, we had no short-term indebtedness outstanding, other than the current portion of long-term debt.

### Interest Rate Risk

As of December 31, 2019 and 2018, R\$1,680.3 million, or 12.7%, and R\$1,642.4 million, or 12.5%, respectively, of our total debt outstanding balance denominated in *reais* was based on variable rates of interest based on the UPR, which is equivalent to the TR. In addition, as of December 31, 2019 and 2018, R\$1,881.9 million, or 14.2%, and R\$1,261.7 million, or 9.6%, and respectively, of our total debt denominated in *reais* was subject to interest rates based on the CDI. As of December 31, 2019 and 2018, R\$2,837.9 million and R\$2,982.0 million, respectively, of our foreign-currency denominated debt was based on the IADB and the IBRD variable rates of interest, which are determined based on the cost of funding of these multilateral organizations in each period.

As of December 31, 2019 and 2018, we did not have any derivative contracts outstanding which limited exposure to changes in the UPR or the CDI or in the IADB or IBRD variable rates. However, we are obliged by law to invest our excess cash with financial institutions controlled by the Brazilian government. We invest these excess funds, which totaled R\$2,253.2 million and R\$3,029.2 million as of December 31, 2019 and 2018, respectively, mainly in short-term instruments. As a result, our exposure to Brazilian interest rate risk is partially limited by our *real*-denominated floating interest time deposits investments, which generally earn interest based on the CDI. In addition to our exposure with respect to existing indebtedness, we may become exposed to interest rate volatility with respect to indebtedness incurred in the future.

We estimate that we would have suffered a loss over periods of one year, respectively, of up to R\$132.4 million, R\$131.5 million and R\$121.0 million if a hypothetical instantaneous and unfavorable change of 100 basis points in the interest rates applicable to financial liabilities as of December 31, 2019, 2018 and 2017, respectively, had occurred. Consistent with these estimates, a hypothetical instantaneous and unfavorable 1000 basis points change in these interest rates would have resulted in losses of approximately R\$1,324.5 million, R\$1,315.3 million and R\$1,210.1 million as of December 31, 2019, 2018 and 2017, respectively. This sensitivity analysis is based on the assumption of an unfavorable 100 basis point movement of the interest rates applicable to each homogeneous category of financial liabilities and sustained over a period of one year, as applicable, and that such movement may or may not affect interest rates applicable to any other homogenous category of financial liabilities.

A homogeneous category is defined according to the currency in which financial liabilities are denominated and assumes the same interest rate movement within each homogeneous category (i.e., U.S. dollars). As a result, our interest rate risk sensitivity model may overstate the effect of interest rate fluctuation on these financial instruments, as consistently unfavorable movements of all interest rates are unlikely.

The tables below provide information about our interest rate-sensitive instruments. For variable interest rate debt, the rate presented is the weighted average rate calculated as of December 31, 2019. For the foreign currency denominated obligations, these amounts have been converted at the selling rates as of December 31, 2019 and do not represent amounts which may actually be payable with respect to such obligations on the dates indicated.

	As of December 31, 2019					
						Expected maturity date
	2020	2021	2022	2023 and after	Total	Average annual interest rate
<i>(in millions, except percentages)</i>						
<b>Assets</b>						
Cash equivalents denominated in <i>reais</i>	2,253.2	-	-	-	2,253.2	
<b>Liabilities</b>						
<b>Long-term debt (current and noncurrent portion)</b>						
Floating rate, denominated in <i>reais</i> indexed by TR or UPR	134.8	133.4	138.2	1,273.9	1,680.3	7.8%
Floating rate, denominated in <i>reais</i> indexed by TJLP	208.1	180.7	159.8	833.8	1,382.4	9.4%
Floating rate, denominated in <i>reais</i> indexed by IPCA	387.8	119.3	119.3	779.1	1,405.5	8.4%
Floating rate, denominated in <i>reais</i> indexed by CDI	168.5	274.9	374.7	1,063.8	1,881.9	5.1%
Fixed rate, denominated in <i>reais</i>	78.7	52.2	32.2	372.7	535.8	
Floating rate, denominated in U.S. dollars	294.1	225.6	225.6	2,092.7	2,838.0	3.4%
Fixed rate, denominated in Yen	173.8	154.8	154.8	1,623.4	2,106.8	1.5%
Fixed rate, denominated in U.S. dollars	1,414.0	-	-	-	1,414.0	3.3%
<b>Total long-term debt</b>	<b>2,859.8</b>	<b>1,140.9</b>	<b>1,204.6</b>	<b>8,039.4</b>	<b>13,244.7</b>	<b>5.5%</b>

UPR stands for Standard Reference Unit (*Unidade Padrão Referência*) and is equal to TR, which was 0.00% per month as of December 31, 2019; CDI stands for Interbank Deposit Rate (*Certificado de Depósitos Interbancários*), which was 4.40% per annum as of December 31, 2019; IGP-M was 7.30% per annum as of December 31, 2019; TJLP stands for Long-term Interest Rate (*Taxa de Juros a Longo Prazo*), published quarterly by the Central Bank, which was 5.57% per annum as of December 31, 2019.

The percentage of our indebtedness subject to fixed and floating interest rate is as follows:

	As of December 31,		
	2019	2019	2017
<b>Floating rate debt:</b>			
Denominated in U.S. dollars	19.0%	22.2%	23.3%
Denominated in <i>reais</i>	48.0%	45.0%	48.5%
<b>Fixed rate debt:</b>			
Denominated in <i>reais</i>	4.0%	4.3%	4.6%
Denominated in Yen	16.0%	15.5%	14.1%
Denominated in U.S. dollars	13.0%	13.0%	9.5%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

## ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

### A. Debt Securities

Not applicable.

## B. Warrants and Rights

Not applicable.

## C. Other Securities

Not applicable.

## D. American Depositary Shares

In the United States, our common shares trade in the form of ADS. Following a ratio change effected on January 24, 2013, each ADS represents one common share of our company. Following a stock split which took place on April 25, 2013, we issued two new ADSs for each ADS currently trading and distributed them to our holders on April 29, 2013. The ADSs are issued by The Bank of New York Mellon, as Depositary pursuant to a Deposit Agreement. The ADSs commenced trading on the NYSE on May 10, 2002.

### *Fees and Expenses*

The following table summarizes the fees and expenses payable by holders of ADRs:

<b>Persons depositing common shares or ADR holders must pay:</b>	<b>For:</b>
US\$5.00 (or less) per 100 ADSs (or portion of 100 ADSs)	Issuance of ADSs, including issuances resulting from a distribution of common shares or rights or other property
Cancellation of ADSs for the purpose of withdrawal, including if the deposit agreement terminates	
US\$0.05 (or less) per ADS or portion thereof (to the extent not prohibited by the rules of any stock exchange on which the ADSs are listed for trading)	Any cash distribution to you
A fee equivalent to the fee that would be payable if securities distributed to you had been common shares and the common shares had been deposited for issuance of ADSs	Distribution of securities distributed to holders of deposited securities which are distributed by the depositary to ADR holders
US\$0.05 (or less) per ADS or portion thereof per calendar year (in addition to the cash distribution fee of \$0.02 per ADS that the depositary has collected during the year)	Depositary services
Registration or transfer fees	Transfer and registration of common shares on our common share register to or from the name of the depositary or its agent when you deposit or withdraw common shares
Cable, telex and facsimile transmissions expenses (when expressly provided in the deposit agreement)	
Expenses of the depositary in converting foreign currency to U.S. dollars	
Expenses of the depositary	
Taxes and other governmental charges the depositary or the custodian have to pay on any ADR or common share underlying an ADR, for example, stock transfer taxes, stamp duty or withholding taxes	As necessary
Any charges incurred by the depositary or its agents for servicing the deposited securities	No charges of this type are currently made in the Brazilian market

### *Payment of Taxes*

The depositary may deduct the amount of any taxes owed from any payments to you. It may also sell deposited securities, by public or private sale, to pay any taxes owed. You will remain liable if the proceeds of the sale are not sufficient to pay the taxes. If the depositary sells deposited securities, it will, if appropriate, reduce the number of ADSs to reflect the sale and pay to you any proceeds, or send to you any property, remaining after it has paid the taxes.

### *Reimbursement of Fees*

The Bank of New York Mellon, as depositary, has agreed to reimburse us for expenses we incur that are related to establishment and maintenance expenses of the ADS program. The depositary has agreed to reimburse us for our continuing annual stock exchange listing fees. The depositary has also agreed to pay the standard out-of-pocket maintenance costs for the ADRs, which consist of the expenses of postage and envelopes for mailing annual and interim financial reports, printing and distributing dividend checks, electronic filing of United States federal tax information, mailing required tax forms, stationery, postage, facsimile, and telephone calls. It has also agreed to reimburse us annually for certain investor relationship programs or special investor relations promotional activities. In certain instances, the depositary has agreed to provide additional payments to us based on any applicable performance indicators relating to the ADR facility. There are limits on the amount of expenses for which the depositary will reimburse us. The amount of reimbursement available to us is tied to the amount of fees the depositary collects from investors.

The depositary collects its fees for delivery and surrender of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them. The depositary collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The depositary may collect its annual fee for depositary services by deduction from cash distributions or by directly billing investors or by charging the book-entry system accounts of participants acting for them. The depositary may generally refuse to provide fee-attracting services until its fees for those services are paid.

***Reimbursement of Fees Incurred in 2019***

From January 1, 2019 to December 31, 2019, we received reimbursements in the amount of US\$655,400 for standard out-of-pocket maintenance costs for the ADRs, any applicable performance indicators relating to the ADR facility, marketing fees and legal fees.

## **PART II**

### **ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES**

Not applicable.

### **ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS**

Not applicable.

### **ITEM 15. CONTROLS AND PROCEDURES**

#### **A. Disclosure Controls and Procedures**

We carried out an evaluation under the supervision of and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer and Investor Relations Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, including those defined in the United States Exchange Act Rule 13(a)–15(e), as of the year ended December 31, 2019.

As a result of this analysis, our principal executive officer and principal financial officer concluded that (i) our disclosure controls and procedures were both designed and effective at the reasonable assurance level as of December 31, 2019; (ii) that the information required to be disclosed in our filings and submissions under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified by the SEC’s rules and forms; and (iii) that this information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer and Investor Relations Officer, as appropriate to allow timely decisions regarding required disclosure.

#### **B. Management’s Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal controls over financial reporting.

Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS, as issued by the IASB.

Our internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS, as issued by the IASB, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer and Investor Relations Officer, our management conducted an assessment of our internal control over financial reporting as of December 31, 2019 based on the criteria established in “Internal Control - Integrated Framework” issued by COSO in 2013.

As a result of the assessment described above, our management concluded that as of December 31, 2019, we maintained effective internal control over financial reporting based on the criteria established in “Internal Control — Integrated Framework” issued by COSO in 2013.

Our independent registered public accounting firm has issued an attestation report on the effectiveness of our internal control over financial reporting. That report is included below.

## C. Attestation Report of the Registered Public Accounting Firm

### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders, Board of Directors and Management of Companhia de Saneamento Básico do Estado de São Paulo – SABESP, São Paulo – SP

#### *Opinion on Internal Control Over Financial Reporting*

We have audited Companhia de Saneamento Básico do Estado de São Paulo – SABESP (the Company) internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the financial position of the Company as of December 31, 2019 and 2018, the related the related statements of income, comprehensive income, changes in equity and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes (collectively, the financial statements), and our report dated April 30, 2020 expressed an unqualified opinion on those financial statements.

#### *Basis for Opinion*

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Financial Statements. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

#### *Definition and Limitations of Internal Control Over Financial Reporting*

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/S/ KPMG Auditores Independentes

São Paulo – Brazil

April 30, 2020

## **D. Changes in internal control over financial reporting**

There have been improvements in our internal control over financial reporting as of December 31, 2019. Our management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer and Investor Relations Officer, has been actively engaged in the implementation of remediation efforts to address our material weakness as of December 31, 2018 and previously disclosed in our 2018 Annual Report on Form 20-F.

Our management established major actions that have been implemented to remediate the material weakness related the service account (ERP system support) with privileged access. These actions included:

- Implementing more stringent formalized procedures and controls to ensure that privileged access occurs only on an exceptional basis and for the necessary time, subject to due justification and based on the authorization of two managers;
- Introducing review of the access logs of the relevant account by an independent professional;
- Promoting the periodic review of users with privileged access; and
- Establishing automated monitoring by the internal audit department to timely identify the accesses granted in exceptional situations.

As a result of this work, we have concluded that the previous material weakness as disclosed in our 2018 Annual Report on Form 20-F has been remediated as of December 31, 2019.

In addition, as from January 1, 2019, we adopted IFRS 16 (Leases) that required the implementation of new controls and the modification of certain accounting processes related to the recognition, measurement, presentation and disclosure of leases. The impact of these changes was not material in respect of our internal control over financial reporting. Our management identified no other changes in our internal control over financial reporting that occurred during our the fiscal year ended December 31, 2019 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### **ITEM 16. [Reserved]**

#### **ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT**

At our board meeting held on June 26, 2006, we established an audit committee, as defined under section 3(a)(58) of the Exchange Act. Our board of directors has determined that Ernesto Rubens Gelbcke qualifies as an “audit committee financial expert” as defined for the purposes of this Item 16A in Item 16 of Form 20-F. Ernesto Rubens Gelbcke is an “independent director” within the meaning of the SEC rules.

#### **ITEM 16B. CODE OF ETHICS**

We have adopted a code of ethics and conduct called the Code of Conduct and Integrity, which applies to all of our employees, including our directors, chief executive officer, chief financial officer and investor relations and head of accounting, as well as our suppliers and third-party contractors. To ensure compliance with the Code of Conduct and Integrity, we have an Ethics Commission and an internal Whistle-Blower Channel, as well as a Corporate Accountability Procedure and an Ombudsman Office as well as a Customer Service that receive external complaints. The internal channel can receive anonymous whistle blowing. The results of the investigations are forwarded to the Audit Committee. Recurring cases are reported to the Ethics Commission, which urges the related departments to develop preventive actions. In 2019, 174 events were reported to the Whistle-Blower Channel. During 2019, 45 of our employees or outsourced employees received penalties (20 warnings, two suspension and 23 dismissals). Our Ethics Commission is also responsible for addressing relevant inquiries and interpreting the norms of the Code of Business Conduct and Ethics for all of our employees. Our Code of Conduct and Integrity is available on our web site at <http://www.sabesp.com.br> at the following location: Investor Relations – Corporate Governance. If we amend the provisions of our Code of Conduct and Integrity, or if we grant any waiver of such provisions, we will disclose the amendment or waiver on our web site at the same address. You can obtain copies of our Code of Business Conduct and Ethics, without charge, upon request to [sabesp.ri@sabesp.com.br](mailto:sabesp.ri@sabesp.com.br).

Federal Law No. 13,303/16, State Decree 62,349/16 and the new *Novo Mercado* rules require the adoption of a Code of Conduct that should include, among other provisions, guidelines to avoid conflicts of interests, forbiddance of fraudulent acts and corruption, whistleblowing channels, protective measures to avoid retaliation regarding whistleblowers, periodic training on the content of such code and sanctions in case of code violations. See “Item 16G—Corporate Governance—Required Changes to Corporate Governance Practices of Brazilian Government-Controlled Companies.” We will disclose the amendment on our web site at the address listed above.



**ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

KPMG Auditores Independentes served as our independent registered public accounting firm for the year ended December 31, 2019.

The following table presents the aggregate fees for professional services and other services rendered to us by KPMG Auditores Independentes in 2019 and 2018:

	<b>Year ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
		<i>(in millions of reais)</i>
Audit Fees <sup>(1)</sup>	2.9	2.8
Audit-Related Fees	-	-
Tax Fees	-	-
All Other Fees	-	-
<b>Total</b>	<b>2.9</b>	<b>2.8</b>

- (1) Audit Fees are the fees billed by our independent auditors for the audit of our annual financial statements, reviews of interim financial statements and attestation services that are provided in connection with statutory and regulatory filings or engagements.

**Pre-approval policies and procedures**

Pursuant to Brazilian law, our board of directors is responsible, among other matters, for the selection, dismissal and oversight of our independent registered public accounting firm. Our management is required to obtain the board of directors' approval before engaging an independent registered public accounting firm to provide any audit or permitted non-audit services to us. The Brazilian Federal and State Public Bidding Laws also apply to us with respect to obtaining services from third parties for our business, including the services provided by our independent registered public accounting firm. As part of the bidding process, the independent registered public accounting firm is required to submit proposals, and is then selected by us based on certain criteria including technical expertise and cost.

Except as disclosed above, KPMG Auditores Independentes did not provide any non-audit services to us.

**ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES**

None.

**ITEM 16E. PURCHASES OF EQUITY SECURITIES BY ISSUER AND AFFILIATED PURCHASERS**

Not applicable.

**ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT**

Not applicable.

## ITEM 16G. CORPORATE GOVERNANCE

### Required Changes to Corporate Governance Practices of Brazilian Government-Controlled Companies

On June 30, 2016, Federal Law No. 13,303/16 came into force in Brazil. This law sets new corporate governance standards for Brazilian government-owned and mixed capital companies like our company, as well as their subsidiaries. Federal Law No. 13,303/16 also sets new rules that these companies must follow in public bidding procedures and when contracting third parties.

In terms of corporate governance, Federal Law No. 13,303/16 requires significant changes to internal controls and strengthens the rights not only of our shareholders, but also of any interested party, to inspect the finances and running of the company. It requires us to publish periodically a series of documents and reports to demonstrate our level of commitment to our business objectives, the financial impact of those commitments, and our policies and practices in terms of corporate governance and sustainability, among other things. Those documents and reports must be accompanied by further explanations, in plain language, that can be understood by the general public.

Among other requirements, this law sets out the following rules:

- At least 25% of the members of the Board of Directors must be independent, in accordance with the definition of director independence set by Brazilian law (or, for companies whose minority shareholders exercise multiple votes, at least one of the directors must be independent).
- All directors and officers must have the same term of office, which may not be longer than two years. They may be re-elected up to a maximum of three times consecutively.
- The performance of the executive officers, directors and members of board committees must be subjected to yearly evaluation with respect to, at a minimum, the following matters:
  - a. the lawfulness and effectiveness of their management performance;
  - b. their contribution to the company's income for the year; and
  - c. their contribution to furthering the objectives in the company's business plan and compliance with its long-term strategy.

The federal law requires that all officers and directors of the company must satisfy certain technical standards, in addition to the general requirement that they be of good reputation and have knowledge of the business sector concerned. These technical standards include satisfying both Point 1 and Point 2 below:

1. The individual must satisfy **at least** one of the requirements under (a), (b) or (c) of this Point 1:
  - a. a minimum of 10 years' experience in an appointed position, in either the public or private sector, in a business area that is similar or related to the company's business purpose; or
  - b. a minimum of four years' exercise of any one of (i), (ii) or (iii) below:
    - i. a senior management position in a company with a similar business purpose or similar size; or
    - ii. a position in the public sector that involves a high degree of trust (i.e., at level DAS-4 or higher); or
    - iii. a position as professor or researcher in the company's business sectors; or
  - c. a minimum of four years' practice as an independent professional in one or more areas that are directly or indirectly related to the company's business sectors;

**and:**

2. The individual must satisfy the requirements of **both** (a) and (b) of this Point 2:
  - a. the individual must have received sufficient training for the position for which she or he has been nominated; and

- b. the individual must not have been declared ineligible for such position in accordance with applicable law.

In order to comply with this law, we have implemented certain changes in our corporate governance structure and governing documents, such as our bylaws, Board of Director's Internal Charter, Executive Board's Internal Charter and Fiscal Council's Internal Charter.

Additionally, we have certain corporate policies, such as the Nominating Policy for the appointment and assessment of directors, officers and Fiscal Council members, as well as the Policy for Compensation of directors, officers, as well as members of the Fiscal Council and statutory committees.

These policies also aim to comply with the Novo Mercado Regulation and the State Decree No. 62,349/2016.

For a description of new corporate governance obligations imposed by Brazilian law on companies listed on the *Novo Mercado* segment, see "Item 9.C. Markets—Trading on the Brazilian Stock Exchange—The *Novo Mercado* Segment."

### **Significant Differences between our Current Corporate Governance Practices and NYSE Corporate Governance Standards**

We are subject to the NYSE corporate governance listing standards. As a foreign private issuer, the standards applicable to us are considerably different than the standards applied to U.S. listed companies. Under the NYSE rules, we are required only to: (a) have an audit committee or audit board, pursuant to an applicable exemption available to foreign private issuers, that meets certain requirements, as discussed below, (b) provide prompt certification by our chief executive officer of any material non-compliance with any corporate governance rules, and (c) provide a brief description of the significant differences between our corporate governance practices and the NYSE corporate governance practice required to be followed by U.S. listed companies.

In view of Brazilian Law 13.303/16 and new requirements of Novo Mercado Listing Regulations, the following discussion summarizes the significant differences between our current corporate governance practices and those required of U.S. listed companies:

#### ***Majority of Independent Directors***

The NYSE rules require that a majority of the board must consist of independent directors. Independence is defined by various criteria, including the absence of a material relationship between the director and the listed company. While the Brazilian Corporate Law did not previously have a similar requirement, Federal Law No. 13,303/16 established that at least 25% of the members of the board of directors must be independent. Under the Novo Mercado Regulations, our board of directors must evaluate the independence of directors before their election to the board. Such evaluation shall be based on a declaration prepared by the nominee. Additionally, Brazilian Corporate Law, Federal Law No. 13,303/16 and the CVM have established rules that require directors to meet certain qualification requirements applicable to a company's directors. However, they do not require that we have a majority of independent directors, as required under the NYSE rules. Under our current bylaws, approved on April 27, 2018, our board of directors must have a minimum of seven members, and 25% of the board must be independent, as established by Federal Law No. 13,303/16 and as defined under Novo Mercado Regulations. Currently, six of our nine directors are independent, pursuant to the Novo Mercado Listing Regulations and Federal Law No. 13,303/16. We believe these rules provide adequate assurances that our directors are independent.

#### ***Executive Sessions***

NYSE rules require that the non-management directors must meet at regularly scheduled executive sessions without management present. The Brazilian Corporate Law does not have a similar provision. According to this Law, up to one-third of the members of the board of directors can be elected from management. Our bylaws provide that the CEO shall integrate the Board of Directors, while holding such position. All other members of our board of directors meet the NYSE's definition of "non-management" directors. There is no requirement in the Brazilian Corporate Law that non-management directors meet regularly without management. However, the Internal Charter of the Board of Directors establishes that, by resolution of the Chairman of the Board, meetings may be held exclusively for external directors, without the presence of executives. Our board of directors consists of seven non-management directors.

#### ***Fiscal Council***

Under the Brazilian Corporate Law, the *Conselho Fiscal*, or fiscal council, is a corporate body independent of management and a company's external auditors. The fiscal council may be either permanent or non-permanent, in which case it is appointed by the shareholders to act during a specific fiscal year. A fiscal council is not equivalent to, or comparable with, a U.S. audit committee. The primary responsibility of the fiscal council is to review management's activities and a company's financial statements, and to report its findings to the company's shareholders. The Brazilian Corporate Law requires fiscal council members to receive as compensation at least 10% of the average annual amount paid to a company's executive officers. The Brazilian Corporate Law requires a fiscal council to be composed of a minimum of three and a maximum of five sitting members and respective alternates.

Under the Brazilian Corporate Law, the fiscal council may not contain members that (i) are on our board of directors, (ii) are on the board of executive officers, (iii) are employed by us or a controlled company, or (iv) are spouses or relatives of any member of our management, up to the third degree.

Currently, our fiscal council consists of four sitting members and his/her alternates. The fiscal council members generally meet once a month.

#### ***Audit Committee***

NYSE rules require that listed companies have an audit committee that (i) is composed of a minimum of three independent directors who are all financially literate, (ii) meets the SEC rules regarding audit committees for listed companies, (iii) has at least one member who has accounting or financial management expertise and (iv) is governed by a written charter addressing the committee's required purpose and detailing its required responsibilities. However, as a foreign private issuer, we need only to comply with the requirement that the audit committee meet the SEC rules regarding audit committees for listed companies to the extent compatible with Brazilian Corporate Law and Federal Law No. 13,303/16 (the Brazilian State-owned Companies Law). Our audit committee, which is not equivalent to, or comparable with, a U.S. audit committee, provides assistance to our board of directors on matters involving accounting, internal controls, financial reporting and compliance. The audit committee is mainly responsible for assisting and advising the board of directors in its responsibilities to ensure the quality, transparency and integrity of our published financial information and financial statements. The audit committee is also responsible for supervising all matters relating to the Code of Business Conduct and Ethics, accounting, internal controls, the internal and independent audit functions, compliance, risk management and internal policies, such as the related parties transaction policy. The audit committee comprises three members appointed by the board of directors, and, pursuant to our bylaws, the members of our audit committee may be appointed simultaneously to their election to the board of directors or by a subsequent resolution. The members of the audit committee shall perform their duties for the duration of their respective terms as board members or until otherwise decided by the shareholders' meeting or by the board of directors. In the event that an audit committee member resigns or is removed from office after exercising any portion of his or her term, such member may only rejoin the audit committee at least three years from the end of his or her term. The current members of our audit committee are Ernesto Rubens Gelbcke, Lucas Navarro Prado and Luís Eduardo Alves de Assis. All members meet the independent membership requirements of the SEC and NYSE as well as other NYSE requirements. Ernesto Rubens Gelbcke is the committee's "financial expert" within the scope of the SEC rules covering the disclosure of financial experts on audit committees in periodic filings pursuant to the U.S. Securities Exchange Act of 1934.

#### ***Nomination/Corporate Governance and Compensation Committees***

NYSE rules require that listed companies have a nomination/corporate governance committee and a compensation committee composed entirely of independent directors and governed by a written charter addressing the committee's required purpose and detailing its required responsibilities. Required responsibilities for the nomination/corporate governance committee include, among other things, identifying and selecting qualified board member nominees and developing a set of corporate governance principles applicable to the company. Required responsibilities for the compensation committee include, among other things, reviewing corporate goals relevant to the chief executive officer's compensation, evaluating the chief executive officer's performance, approving the chief executive officer's compensation levels and recommending to the board non-chief executive officer compensation, incentive-compensation and equity-based plans.

Under the Brazilian Corporate Law, we are not required to have a nomination/corporate governance committee or compensation committee. However, Federal Law No. 13,303/16 and State Decree No. 62,349/16 established the requirement of a committee with the responsibilities of verifying the nomination process of the members of the management and of the fiscal council. In our annual shareholders' meeting, held on April 27, 2018, our bylaws were amended in order to, among other things, create the Eligibility and Advisory Committee in compliance with Federal Law No. 13,303/16 and State Decree No. 62,349/16.

This committee must be composed of up to three members, elected by a general shareholders' meeting, without a fixed term of office. Members must have at least three years' professional experience in public administration, or three years' experience in the private sector in an area in which, or related to which, we operate.

Candidates are assessed based on the CODEC Resolution No. 03/2018 and on our nomination policy, approved by the Board of Directors, which follows the guidelines defined by Federal Law No. 13,303/16, State Decree No. 62,349/16 and Novo Mercado Listing Regulations.

Members of the Eligibility and Advisory Committee may attend board of directors' meetings where matters related to this committee are discussed and will have the right to speak, but not to vote, in accordance with our bylaws.

This committee is also responsible for verifying the compliance of the evaluation process of the members of the management and of the fiscal council, as well as providing methodological and procedural support to the board of directors to evaluate the performance of officers and other members of statutory committees.

The performance evaluation, individual and collective, held annually, of the members of the management and the members of committees, observing the following minimum requirements, according to the terms of Federal Law No. 13,303/16:

- (a) presentation of the acts of management, regarding the lawfulness and effectiveness of the management;
- (b) contribution to the earnings for the year; and
- (c) achievement of the purposes established in the business plan and fulfillment of the long-term strategy.

We expect that a written charter addressing the committee's purpose and detailing its required responsibilities will be approved by the board of directors.

Under the Brazilian Corporate Law, the total amount available for compensation of our directors and executive officers and for profit-sharing payments to our executive officers is established by our shareholders at the annual general meeting. The individual compensation and profit-sharing of each executive officer, as well as the compensation of our board and committee members is set out according to our remuneration policy, approved by the Board of Directors, which follows the guidelines from the São Paulo State Government and the CODEC (State Capital Protection Board).

### ***Shareholder Approval of Equity Compensation Plans***

NYSE rules require that shareholders be given the opportunity to vote on all equity compensation plans and material revisions thereto, with limited exceptions. We do not currently have any equity compensation plan. If such a plan were to be implemented, there is no requirement under Brazilian Corporate Law for the plan to be approved by our shareholders. However, if the issuance of new shares in connection with any equity compensation plan exceeded the authorized capital under our bylaws, the increase in capital would require shareholder approval.

### ***Corporate Governance Guidelines***

NYSE rules require that listed companies adopt and disclose corporate governance guidelines. We are in compliance with the adoption of corporate governance provisions and guidelines required under the Novo Mercado Regulations, Federal Law No. 13,303/16 and State Decree 62,349/16. See "Item 9.C Markets—Trading on the Brazilian Stock Exchange—The Novo Mercado Segment" and "Item 16.G—Corporate Governance—Required Changes to Corporate Governance Practices of Brazilian Government-Controlled Companies," our Report on Brazilian Code of Corporate Governance and our policies available on "Corporate Governance" section of our Investor Relations website. We believe that such corporate governance guidelines applicable to us do not conflict with the guidelines established by the NYSE. Our corporate governance guidelines and practices are available on our website at [www.sabesp.com.br](http://www.sabesp.com.br) at the following location: Investor Relations – Corporate Governance.

### ***Code of Business Conduct and Ethics***

NYSE rules require that listed companies adopt and disclose a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers. The adoption and disclosure of a formal code is not required under the Brazilian Corporate Law.

However, Federal Law No. 13,303/16, State Decree 62,349/16 and the *Novo Mercado* Regulations require the adoption of a Code of Conduct and Integrity that should include, among other provisions, guidelines to avoid conflicts of interests, forbiddance of fraudulent acts and corruption, whistleblowing channels, protective measures to avoid retaliation regarding whistleblowers, periodic training on the content of such code and sanctions in case of code violations. We adopt and disclose a Code of Business Conduct and Ethics which complies with the requirements made by the Brazilian laws and regulations, as well as addresses the matters required to be addressed by the applicable NYSE and SEC rules.

We have had a Code of Business Conduct and Ethics since 2006, and the latest version was approved by the Board of Directors in June 2018. It is available on [www.sabesp.com.br/investidores](http://www.sabesp.com.br/investidores), section "Governança Corporativa" (Corporate Governance), and on the Brazilian Securities Commission ([www.cvm.com.br](http://www.cvm.com.br)).

The Code of Conduct and Integrity is introduced to Company's Officers, Board of Directors, Board of Auditors, Audit Committee, Eligibility and Counselling Committee and to all the other employees during the integration program which is tailored to their positions.

Moreover, we require our suppliers and other related third-party to comply with our Code of Business Conduct and Ethics as well and the non-compliance acts are subjected to sanctions under the contract and other measures according to applicable laws and regulations.

Any breach of the Code of Conduct and Integrity is subject to internal investigations and disciplinary measures applicable on a case-by-case basis.

The Code of Conduct and Integrity is frequently updated in order to comply with new laws and regulations.

### ***Internal Audit Function***

NYSE rules require that listed companies maintain an internal audit function to provide management and the audit committee with ongoing assessments of the company's risk management processes and system of internal control. Our internal audit department is connected to the Board of Directors through the audit committee and reports to our Chief Executive Officer. Our internal audit is responsible for evaluating (i) the adequacy of internal controls, (ii) the effectiveness of the risk management and of the governance processes, (iii) the reliability of the process of collecting, measuring, classifying, accumulating, recording and disclosing events and transactions, to prepare financial statements, and (iv) the proper application of the principle of segregation of duties, to avoid the occurrence of conflicts of interest and fraud.

### **Anticorruption Compliance**

Law No. 12,846, of August 1, 2013 (the "Anticorruption Law" or the "Clean Company Act"), as further regulated by Decree No. 8,420/2015, introduced to the Brazilian legal system the concept of strict liability for legal entities involved in harmful acts against the national and foreign public administration, as defined in the Anticorruption Law, subjecting the violation company to penalties both in administrative and civil law. Similar to the Foreign Corrupt Practices Act of the United States, to which we are also subject, the Anticorruption Law considers that an effective implementation of Compliance Programs may be used to mitigate the administrative penalties to be applied as a consequence of a harmful act against the public administration, which can be up to 20% of the company's annual gross revenue.

We have a Compliance Program which was approved by the Board of Directors and is updated periodically. The last update was in December 2018. The program was established in accordance with the Brazilian Anticorruption Law, Foreign Corrupt Practices Act, Federal Law No. 13,303/16, the Novo Mercado Regulations, and Brazilian Office of the Comptroller General's (CGU) guidelines.

As a semi-public company, our Compliance Program encompasses two distinct situations – active corruption and passive corruption, as established in Brazilian anti-corruption legislation – and follows the recommendations of the Organization for Economic Cooperation and Development, the United Nations Office on Drugs and Crimes, and the World Bank to establish an ethical culture. Our program incorporates and focuses on high management, structural functioning, the provision of complaint hotlines, monitoring of third-party relations, governance and internal controls, risk management, training and communication.

The program currently consists of a set of internal mechanisms and procedures related to integrity, monitoring and incentives to report irregularities. The program also focuses on the effective implementation of the Code of Business Conduct and Ethics as well as other policies and guidelines aimed at preventing fraud, corruption and other harmful acts against public administration.

As part of the program, we created the Conduct and Integrity Learning Track (*Trilha de Aprendizagem de Conduta e Integridade*) which consists of a continuous training program directed to the entire company staff, reinforcing the importance of acting in accordance with laws, regulations and internal policies. The main topics covered are: integrity, ethics, sexual and moral harassment, diversity, corruption, fraud and conflicts of interest.

In 2019 we also conducted on-site training on Prevention and Fight Against Fraud and Corruption based on national and international laws to disseminate best practices and adopt a culture of integrity for our employees and officers and those responsible for the compliance areas of our special purpose companies. We also train our directors, officers and members of the Fiscal Council on issues related to corporate governance and integrity and carry out specific training for employees who work in the process of investigating complaints.

Additionally, this year we carried out the “Ethics Visits” Project throughout our business units, which held more than one hundred workshops with our employees, throughout 30 municipalities where we provide water and sewage services.

In 2019, we also started a new cycle of mapping and analyzing risks, mainly on fraud and corruption, as well as the necessary measures to mitigate them. We are evaluating 14 critical macroprocesses, through interviews with managers and executives, to identify their perception of the risks of fraud and corruption related to strategic guidelines.

Further, we provide the Trust Channel, which is a tool made available to employees make inquiries on any questions related to the ethical behavior within our business. We ensure confidentiality and anonymity to whoever uses this tool.

We also provide complaint hotlines to report cases of fraud, corruption, unlawful acts, breaches of the Code of Business Conduct and Integrity and other activities that could harm our interests and principles. This information is available and is easily accessible and identifiable on our website. Anonymity is guaranteed in all cases, except when there is a court decision to the contrary.

For related-party transactions, establishment of special purpose vehicles or when required, background checks are adopted in order to detect information relating to history and reputation, relationships with public agencies or agents, company corporate structure and restrictive lists, including corruption proceedings and investigations, to ensure that the terms and conditions of the transaction do not result in a material risk of violation of applicable anti-corruption laws.

Among the compliance practices, we encourage the adoption of integrity measures among our suppliers by providing contractual clauses to ensure compliance with ethical standards and the prohibition of fraud and corruption practices, in addition to monitoring related party transactions.

Our department responsible for the application and improvement of the Compliance Program acts with autonomy, independence and impartiality and reports to the CEO. Depending on the individuals involved in the allegations, the department may file a report to Board of Directors, Fiscal Committee and Audit Committee, to which it also makes periodical reports on its activities.

As a result of our efforts, we did not register any corruption cases in 2019.

#### **Citizens’ Access to Information at Sabesp**

Federal Law No. 12,527/2011 (LAI), regulated by State Decree No. 58.052/2012 and State Decree No. 61.559/2015 determines that government entities must create Citizen Information Services – SIC units which receive and manage information requests from the public, and make available to citizens information requested or otherwise provided the reasons for denial of such information requests.

In order to comply with LAI, we implemented the Citizen Information Service – SIC, structuring the internal flow of information to serve citizens within the terms provided by this law. We also made a Transparency Portal (*Portal da Transparência*) available on our website, which includes basic information required by law, software for citizens to request information and a list of frequently requested information, according to the standards of the São Paulo State Government.

These duties are linked to the Risk Management area whose main assumption is the transparency, quality of information and compliance with strategic rules of a listed company.

**ITEM 16H. MINE SAFETY DISCLOSURE**

Not applicable.

**Part III**

**ITEM 17. FINANCIAL STATEMENTS**

Not applicable.

**ITEM 18. FINANCIAL STATEMENTS**

The following financial statements, together with the reports of the independent registered public accounting firms, are filed as part of this annual report. See "Index to Financial Statements."



**ITEM 19. EXHIBITS**

Item	Description
1.1*	Bylaws of the Registrant (English translation) (incorporated by reference to the Form 6-K filed on December 9, 2019).
<a href="#">2.1</a>	<a href="#">Description of Securities registered under Section 12 of the Exchange Act.</a>
4.1*	Agreement between the Registrant and the State Department of Water and Energy (Departamento de Águas e Energia Elétrica—DAEE), dated April 24, 1997 (English translation) (incorporated by reference to Exhibit 10.1 to the Registrant’s Registration Statement on Form F-1 filed on April 8, 2002 (the “April 8, 2002 Form F-1”).
4.2*	Protocol of Understanding between the Registrant and the State of São Paulo, dated September 30, 1997 (English translation) (incorporated by reference to Exhibit 10.2 to the April 8, 2002 Form F-1).
4.3*	Agreement between the Registrant and the State of São Paulo, through the Secretariat of Finance, dated September 10, 2001 (English translation) (incorporated by reference to Exhibit 10.3 to the April 8, 2002 Form F-1).
4.4*	Agreement between the Registrant and the State of São Paulo, through the Secretariat of the Treasury, dated December 11, 2001 (English translation) (incorporated by reference to Exhibit 10.4 to the April 8, 2002 Form F-1).
4.5*	Amendment to the Agreement, dated April 24, 1997, between the Registrant and the DAEE, dated March 16, 2000 (English translation) (incorporated by reference to Exhibit 10.5 to the April 8, 2002 Form F-1).
4.6*	Amendment to the Agreement, dated April 24, 1997, between the Registrant and the DAEE, dated November 21, 2001 (English translation) (incorporated by reference to Exhibit 10.6 to the April 8, 2002 Form F-1).
4.7*	First Amendment to the Agreement, dated December 11, 2001, between the Registrant and the State of São Paulo, dated March 22, 2004. (English translation) (incorporated by reference to Exhibit 4.7 to the Form 20-F filed on June 28, 2004).
4.8*	Second Amendment to the Agreement, dated December 11, 2001, between the Registrant and the State of São Paulo, dated December 28, 2007. (English translation) (incorporated by reference to the Form 6-K filed on February 25, 2008).
4.9*	Third Amendment to the Agreement, dated December 11, 2001, between the Registrant and the State of São Paulo, dated November 17, 2008. (English translation) (incorporated by reference to the Form 6-K filed on December 23, 2008).
4.10*	Commitment Agreement, between the Registrant and the State of São Paulo, dated March 26, 2008. (English translation) (incorporated by reference to the Form 6-K filed on April 28, 2008).
4.11*	Agreement Executed between the Registrant and the São Paulo City Government, dated November 14, 2007 (English Translation) (incorporated by reference to the Form 6-K filed on March 12, 2008).
4.12*	Amendment to the Agreement Executed between the Registrant and the São Paulo City government, dated February 10, 2008 (English translation) (incorporated by reference to the Form 6-K filed on May 12, 2008).
4.14*	The Audit Committee Charter dated September 20, 2018 (English translation) (incorporated by reference to the Form 6-K filed on November 30, 2018).
4.15*	Convention between the State and the city of São Paulo, dated June 23, 2010, with the intermediation and consent of the Registrant and of ARSESP (English translation) (incorporated by reference to the Form 6-K filed on July 13, 2010).
4.16*	Contract to provide public water supply and sewage services, among the Registrant, the State and the city of São Paulo, dated June 23, 2010 (English translation) (incorporated by reference to the Form 6-K filed on July 13, 2010).
4.17*	Term of Agreement between the Registrant, the State of São Paulo and the DAEE, dated March 18, 2015 (English translation) (incorporated by reference to the Form 6-K filed on April 15, 2015).
4.18*	Notice of Transactions with Related Parties, dated November 9, 2016, (English translation) (incorporated by reference to the Form 6-K filed on November 16, 2016).
4.19*	First Amendment to the Private Instrument of Settlement and Other Covenants between the Registrant and EMAE, dated October 19, 2017 (English translation) (incorporated by reference to the Form 6-K filed on November 9, 2017).
11.1*	Code of Conduct and Integrity dated July 27, 2018 (English translation) (incorporated by reference to the Form 6-K filed on August 10, 2018).
<a href="#">12.1</a>	<a href="#">Certification of Benedito Pinto Ferreira Braga Junior, Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
<a href="#">12.2</a>	<a href="#">Certification of Rui de Britto Álvares Affonso, Chief Financial Officer and Investor Relations Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
<a href="#">13.1</a>	<a href="#">Certification of Benedito Pinto Ferreira Braga Junior, Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
<a href="#">13.2</a>	<a href="#">Certification of Rui de Britto Álvares Affonso, Chief Financial Officer and Investor Relations Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

(\*) Previously filed.

## **SIGNATURES**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

### **COMPANHIA DE SANEAMENTO BÁSICO DO ESTADO DE SÃO PAULO - SABESP**

By: /s/ Benedito Pinto Ferreira Braga Junior  
Name: Benedito Pinto Ferreira Braga Junior  
Title: Chief Executive Officer

By: /s/ Rui de Britto Álvares Affonso  
Name: Rui de Britto Álvares Affonso  
Title: Chief Financial Officer and Investor Relations Officer

Date: April 30, 2020

# **Companhia de Saneamento Básico do Estado de São Paulo - SABESP**

**Financial Statements as at December 31, 2019 and 2018  
And for the years ended  
December 31, 2019, 2018 and 2017**

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders, Board of Directors and Management of  
Companhia de Saneamento Básico do Estado de São Paulo - SABESP  
São Paulo - SP

### Opinion on the Financial Statements

We have audited the accompanying statements of financial position of Companhia de Saneamento Básico do Estado de São Paulo – SABESP (the Company) as of December 31, 2019 and 2018, the related statements of income, comprehensive income, changes in equity and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2019, in conformity with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company’s internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated April 30, 2020 expressed an unqualified opinion on the effectiveness of the Company’s internal control over financial reporting.

### ***Basis for Opinion***

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

### **Critical Audit Matters**

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

## **Assessment of the fair value of the concession agreement with the municipality of Santo André**

As discussed in notes 5.4, 9 (a) and 14 to the financial statements, on July 31, 2019, the Company, São Paulo State and the city of Santo André entered into a concession agreement which granted the Company the right to provide sanitation services in the Municipality of Santo André for a period of 40 years. In exchange, the Company gave up its rights to certain receivables from Santo André Municipal Water and Sanitation Service (SEMASA). As a result of this transaction, SABESP recognized R\$ 1,337 million of revenue in the year ended December 31, 2019 based on the Company's estimate of the fair value of the concession agreement. The fair value was estimated by the Company using a discounted cash flow methodology which required a number of unobservable inputs.

We identified the assessment of the fair value of the concession agreement with the municipality of Santo André as a critical audit matter. This was due to the high degree of auditor judgment, subjectivity, and effort required to perform the procedures to evaluate management's fair value calculation and its significant unobservable inputs. These included the future revenues, as well as the underlying assumptions related to tariffs and volumes of water and sewage based on SEMASA's average consumption history, and estimates of future operational costs based on historical trends and experience and the determination of the discount rate to be used.

The primary procedures we performed to address this critical audit matter included the following. We tested certain internal controls related to the process for developing the fair value estimates of the concession agreement, including controls related to the determination and approval of the future revenues, estimates of future operational costs and the discount rate. We involved valuation professionals with specialized skills and knowledge who assisted in:

- (i) testing the Company's process to develop the fair value estimate, including evaluating whether the data, inputs, discount rate and assumptions are relevant and reliable and whether the models and methodologies used are appropriate;
- (ii) evaluating management's discount rate used by comparing it to an independently developed discount rate;
- (iii) evaluating the Company's assumptions related to the: (a) future revenue growth rates, including the underlying assumptions related to tariffs and volumes of water and sewage based on SEMASA's average consumption history; and (b) estimates of future operational costs based on historical trends and experience, by comparing them to information from internal and external sources, as available; and
- (iv) developing an estimate of the fair value using the Company's future revenues and operational costs and the independently developed discount rate, and comparing this to the Company's fair value estimate.

### ***Evaluation of provisions and disclosures for environmental lawsuits***

As discussed in notes 3.15, 6 (e) and 19 to the financial statements, the Company is involved in environmental lawsuits related to fines imposed by public bodies and other such authorities for alleged environmental damages caused by the Company. The Company, with the support and evaluation of its internal and external legal advisors, determines the likelihood of loss and, where possible, estimates the amount of any eventual outflow of resources, for each lawsuit. The Company records a provision when it is probable that an outflow of resources will be required and when the outflow can be reasonably estimated. The Company discloses a contingency whenever the likelihood of loss is considered possible, or when the likelihood of loss is considered probable but it is not possible to reasonably estimate the amount of the outflow.

We identified the evaluation of provisions and disclosures for environmental lawsuits as a critical audit matter because it required challenging auditor judgment and effort due to the subjective nature of the judgments about the likelihood of loss of the environmental lawsuits and the estimates of the amounts that would be paid in the event of loss.

The primary procedures we performed to address this critical audit matter included the following. We tested certain internal controls over the Company's environmental lawsuit process, including controls related to the review and approval of the determination of the likelihood of loss and the estimate of the loss amount, as well as controls over the financial statement disclosures. We obtained and evaluated letters from the Company's legal advisors in relation to the lawsuits including their assessment of the likelihood of loss and estimates of eventual payments in the event of loss. We compared these assessments and estimates to those used by the Company and evaluated the sufficiency of the Company's provisions and disclosures as they related to environmental lawsuits. We involved professionals with specialized skills and knowledge to assist in evaluating the assumptions used by the Company in determining the likelihood of loss for a sample of environmental lawsuits, by considering the merits of the lawsuits, judgments in similar cases, the current status of the lawsuits and other available public information.

We have served as the Company's auditor since 2016.

/S/ KPMG Auditores Independentes

São  
April 30, 2020

Paulo

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Brazil

# Companhia de Saneamento Básico do Estado de São Paulo - SABESP

## Statement of Financial Position as of December 31, 2019 and 2018

Amounts in thousands of reais

<b>Assets</b>	<b>Note</b>	<b>December 31, 2019</b>	<b>December 31, 2018</b>
<b>Current assets</b>			
Cash and cash equivalents	7	2,253,210	3,029,191
Trade receivables	9 (a)	2,137,752	1,843,333
Accounts receivable from related parties	10 (a)	192,906	174,148
Inventories		70,454	65,596
Restricted cash	8	26,018	31,900
Recoverable taxes	17 (a)	141,266	380,703
Other receivables		74,532	77,371
<b>Total current assets</b>		<b>4,896,138</b>	<b>5,602,242</b>
<b>Noncurrent assets</b>			
Trade receivables	9 (a)	215,275	209,083
Accounts receivable from related parties	10 (a)	657,990	669,102
Escrow deposits		177,982	152,018
Water National Agency – ANA		32,466	49,136
Other receivables		119,646	103,310
Investments	11	53,187	44,587
Investment properties	12	47,562	47,620
Contract assets	13	7,617,714	7,407,948
Intangible assets	14	32,325,447	29,012,460
Property, plant and equipment	15	314,393	267,612
<b>Total noncurrent assets</b>		<b>41,561,662</b>	<b>37,962,876</b>
<b>Total assets</b>		<b>46,457,800</b>	<b>43,565,118</b>

The accompanying notes are an integral part of these financial statements.

# Companhia de Saneamento Básico do Estado de São Paulo - SABESP

## Statement of Financial Position as of December 31, 2019 and 2018

Amounts in thousands of reais

<b>Liabilities and equity</b>	<b>Note</b>	<b>December 31, 2019</b>	<b>December 31, 2018</b>
<b>Current liabilities</b>			
Trade payables and contractors		369,631	465,993
Borrowings and financing	16	2,859,843	2,103,612
Accrued payroll and related taxes		594,279	564,830
Taxes and contributions	17 (b)	250,318	200,563
Interest on capital	23 (c)	800,352	673,765
Provisions	19 (a)	550,247	458,387
Services payable	21	474,078	454,022
Public-Private Partnership - PPP	14 (g)	110,291	137,827
Program Contract Commitments	14 (c) (iv)	273,932	230,695
Other liabilities		170,453	108,938
<b>Total current liabilities</b>		<b>6,453,424</b>	<b>5,398,632</b>
<b>Noncurrent liabilities</b>			
Borrowings and financing	16	10,384,866	11,049,184
Deferred income tax and social contribution	18	433,996	261,242
Deferred Cofins and PASEP		143,693	140,830
Provisions	19 (a)	485,561	434,475
Pension obligations	20 (b)	3,360,932	2,970,009
Public-Private Partnership - PPP	14 (g)	3,183,689	3,275,297
Program Contract Commitments	14 (c) (iv)	103,321	142,314
Other liabilities		272,535	341,447
<b>Total noncurrent liabilities</b>		<b>18,368,593</b>	<b>18,614,798</b>
<b>Total liabilities</b>		<b>24,822,017</b>	<b>24,013,430</b>
<b>Equity</b>			
Capital stock		15,000,000	15,000,000
Earnings reserves		7,547,954	5,100,783
Other comprehensive loss		(912,171)	(549,095)
<b>Total equity</b>	23	<b>21,635,783</b>	<b>19,551,688</b>
<b>Total equity and liabilities</b>		<b>46,457,800</b>	<b>43,565,118</b>

The accompanying notes are an integral part of these financial statements.



# Companhia de Saneamento Básico do Estado de São Paulo - SABESP

## Income Statements for the Years ended December 31, 2019, 2018 and 2017 Amounts in thousands of reais, unless otherwise indicated

	Note	2019	2018	2017
<b>Net operating income</b>	27 (b)	17,983,654	16,085,094	14,608,233
Cost of services	28	<u>(10,137,637)</u>	<u>(9,086,456)</u>	<u>(8,778,963)</u>
<b>Gross profit</b>		<u>7,846,017</u>	<u>6,998,638</u>	<u>5,829,270</u>
Selling expenses	28	(803,404)	(693,480)	(686,012)
Allowance for doubtful accounts	28	(128,099)	(166,727)	(82,681)
Administrative expenses	28	(1,187,844)	(996,877)	(1,098,990)
Other operating income (expenses), net	30	(18,748)	28,591	(5,679)
Equity results of investments in affiliates	11	<u>3,701</u>	<u>6,510</u>	<u>5,760</u>
<b>Profit from operations before finance income (expenses) and income tax and social contribution</b>		5,711,623	5,176,655	3,961,668
Financial expenses	29	(1,173,425)	(807,967)	(688,280)
Financial revenues	29	372,842	446,302	326,244
Exchange result, net	29	<u>(233,098)</u>	<u>(902,671)</u>	<u>(96,018)</u>
<b>Financial result, net</b>		<u>(1,033,681)</u>	<u>(1,264,336)</u>	<u>(458,054)</u>
<b>Profit before income tax and social contribution</b>		<u>4,677,942</u>	<u>3,912,319</u>	<u>3,503,614</u>
Income tax and social contribution				
Current	18 (d)	(1,155,463)	(852,655)	(882,787)
Deferred	18 (d)	<u>(154,962)</u>	<u>(224,596)</u>	<u>(101,517)</u>
		<u>(1,310,425)</u>	<u>(1,077,251)</u>	<u>(984,304)</u>
<b>Profit for the year</b>		<u>3,367,517</u>	<u>2,835,068</u>	<u>2,519,310</u>
<b>Earnings per share – basic and diluted (in reais)</b>	24	<u>4.93</u>	<u>4.15</u>	<u>3.69</u>

The accompanying notes are an integral part of these financial statements.

# Companhia de Saneamento Básico do Estado de São Paulo - SABESP

## Statements of Comprehensive Income for the Years ended December 31, 2019, 2018 and 2017 Amounts in thousands of reais

	<u>Note</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Profit for the year		3,367,517	2,835,068	2,519,310
Other comprehensive income (loss)		(363,076)	(10,994)	287,547
Items which will not be subsequently reclassified to the income statement:				
Actuarial gains and (losses) on defined benefit Plans, net of income tax	20 (b)	(363,059)	(10,994)	287,547
Other		(17)	-	-
Total comprehensive income for the year		<u>3,004,441</u>	<u>2,824,074</u>	<u>2,806,857</u>

The accompanying notes are an integral part of these financial statements.

# Companhia de Saneamento Básico do Estado de São Paulo - SABESP

## Statements of Changes in Equity for the Years ended December 31, 2019, 2018 and 2017 Amounts in thousands of reais, unless otherwise indicated

	Note	Earnings reserves				Retained earnings	Other comprehensive loss	Total
		Capital stock	Legal Reserve	Investment reserve	Additional dividend proposed			
<b>Balances as of December 31, 2016</b>		10,000,000	932,310	5,249,830	62,719	-	(825,648)	15,419,211
Net income for the year		-	-	-	-	2,519,310	-	2,519,310
Actuarial gains (losses)	20 (b)	-	-	-	-	-	287,547	287,547
Total comprehensive income for the year		-	-	-	-	2,519,310	287,547	2,806,857
Legal reserve	23 (d)	-	125,965	-	-	(125,965)	-	-
Interest on capital (R\$0.87539 per share)	23 (c)	-	-	-	-	(598,336)	-	(598,336)
2016 additional proposed dividends, approved (R\$0.09176 per share)		-	-	-	(62,719)	-	-	(62,719)
Additional proposed dividends	23 (c)	-	-	-	105,543	(105,543)	-	-
Withholding income tax on interest on capital attributable as minimum mandatory dividends		-	-	-	(52,004)	-	-	(52,004)
Transfer to investments reserve		-	-	1,689,466	-	(1,689,466)	-	-
<b>Balances as of December 31, 2017</b>		10,000,000	1,058,275	6,939,296	53,539	-	(538,101)	17,513,009
Net income for the year		-	-	-	-	2,835,068	-	2,835,068
Actuarial gains (losses)	20(b)	-	-	-	-	-	(10,994)	(10,994)
Total comprehensive income for the year		-	-	-	-	2,835,068	(10,994)	2,824,074
Legal reserve	23 (d)	-	141,755	-	-	(141,755)	-	-
Investments reserve capitalized	23 (a)	5,000,000	-	(5,000,000)	-	-	-	-
Interest on capital (R\$0.9851 per share)	23 (c)	-	-	-	-	(673,328)	-	(673,328)
2017 additional proposed dividends, approved (R\$0.07833 per share)		-	-	-	(53,539)	-	-	(53,539)
Additional proposed dividends	23 (c)	-	-	-	118,859	(118,859)	-	-
Withholding income tax on interest on capital attributable as minimum mandatory dividends	23 (c)	-	-	-	(58,528)	-	-	(58,528)
Transfer to investments reserve		-	-	1,901,126	-	(1,901,126)	-	-
<b>Balances as of December 31, 2018</b>		15,000,000	1,200,030	3,840,422	60,331	-	(549,095)	19,551,688
Net income for the year		-	-	-	-	3,367,517	-	3,367,517
Actuarial gains (losses)	20 (b)	-	-	-	-	-	(363,076)	(363,076)
Total comprehensive income for the year		-	-	-	-	3,367,517	(363,076)	3,004,441
Legal Reserve	23 (d)	-	168,376	-	-	(168,376)	-	-
Interest on shareholder's equity (R\$1.17012 per share)	23 (c)	-	-	-	-	(799,785)	-	(799,785)
2018 additional proposed dividends, approved (R\$0.08827 per share)		-	-	-	(60,331)	-	-	(60,331)
Additional proposed dividends	23 (c)	-	-	-	141,203	(141,203)	-	-
Withholding income tax on interest on capital attributable as minimum mandatory dividends	23 (c)	-	-	-	(60,230)	-	-	(60,230)
Transfer to investments reserve	23 (f)	-	-	2,258,153	-	(2,258,153)	-	-
<b>Balances as of December 31, 2019</b>		15,000,000	1,368,406	6,098,575	80,973	-	(912,171)	21,635,783

The accompanying notes are an integral part of these financial statements.

# Companhia de Saneamento Básico do Estado de São Paulo - SABESP

## Statements of Cash Flows for the Years ended December 31, 2019, 2018 and 2017 Amounts in thousands of reais

	December 31, 2019	December 31, 2018	December 31, 2017
<b>Cash flow from operating activities</b>			
<b>Profit before income tax and social contribution</b>	<b>4,677,942</b>	<b>3,912,319</b>	<b>3,503,614</b>
<b>Adjustments for:</b>			
Depreciation and amortization	1,780,094	1,392,541	1,301,897
Residual value of property, plant and equipment, intangible assets and investment properties written-off	45,434	24,974	24,935
Bad debt expense	128,099	165,433	82,681
Agreement signed with the municipality of Guarulhos	-	(928,014)	-
Agreement signed with the municipality of Santo André	(1,336,908)	-	-
Provisions and inflation adjustment	384,620	111,940	185,080
Interest calculated on borrowings and financing payable	568,679	563,902	426,781
Inflation adjustment and exchange gains (losses) on borrowings and financing	280,526	982,072	159,087
Interest and inflation adjustment on liabilities	46,038	30,103	25,751
Interest and inflation adjustment on assets	(39,547)	(64,046)	(31,619)
Finance charges from customers	(364,291)	(289,321)	(193,683)
Margin of fair value on intangible assets arising from concession	(65,172)	(63,013)	(70,335)
Provision for Consent Decree (TAC)	(130,345)	80,245	72,933
Share of profit of investees	(3,701)	(6,510)	(5,760)
Interest and monetary restatement (PPP)	397,576	-	-
Provision from São Paulo agreement	135,013	135,735	-
Pension obligations	267,423	243,569	304,500
Other adjustments	5,863	33,349	92,461
	<b>6,777,343</b>	<b>6,325,278</b>	<b>5,878,323</b>
<b>Changes in assets</b>			
Trade receivables	(72,538)	(71,679)	(42,194)
Accounts receivable from related parties	26,358	39,919	51,594
Inventories	(4,858)	20,075	(27,633)
Recoverable taxes	239,437	(104,118)	(233,952)
Escrow deposits	(12,302)	(1,639)	(32,200)
Other receivables	(1,966)	11,760	8,312
<b>Changes in liabilities</b>			
Trade payables and contractors	(349,037)	(176,826)	(180,353)
Services payable	(114,957)	(89,988)	(51,779)
Accrued payroll and related taxes	159,794	(103,488)	56,841
Taxes and contributions payable	63,276	(4,829)	15,983
Deferred Cofins/PASEP	2,863	10,648	(7,889)
Provisions	(241,674)	(297,282)	(279,951)
Pension obligations	(221,784)	(217,000)	(228,282)
Other liabilities	(92,637)	122,214	(16,741)
<b>Cash generated from operations</b>	<b>6,157,318</b>	<b>5,463,045</b>	<b>4,910,079</b>
Interest paid	(737,326)	(732,048)	(676,087)
Income tax and social contribution paid	(1,222,747)	(888,077)	(932,110)
<b>Net cash generated from operating activities</b>	<b>4,197,245</b>	<b>3,842,920</b>	<b>3,301,882</b>
<b>Cash flows from investing activities</b>			
Acquisition of contract assets and intangible assets	(3,195,247)	(2,132,559)	(1,957,780)
Restricted cash	5,882	(13,078)	5,256
Investment increase/(decrease)	240	(1,136)	-
Purchase of property, plant and equipment	(78,159)	(50,645)	(18,920)
Dividends received	-	8,131	-
<b>Net cash used in investing activities</b>	<b>(3,267,284)</b>	<b>(2,189,287)</b>	<b>(1,971,444)</b>

The accompanying notes are an integral part of these financial statements.

# Companhia de Saneamento Básico do Estado de São Paulo - SABESP

## Statements of Cash Flows for the Years ended December 31, 2019, 2018 and 2017 Amounts in thousands of reais

(continued)

	<u>December 31, 2019</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
<b>Cash flows from financing activities</b>			
Borrowings and financing			
Proceeds from loans	1,793,388	1,634,553	1,007,572
Payment of loans	(2,148,198)	(1,678,748)	(1,098,558)
Payment of interest on capital	(739,996)	(653,393)	(765,933)
Public-Private Partnership - PPP	(548,079)	(178,333)	(31,758)
Program Contract Commitments	(63,057)	(31,568)	(44,935)
<b>Net cash used in financing activities</b>	<b>(1,705,942)</b>	<b>(907,489)</b>	<b>(933,612)</b>
<b>Increase / (decrease) in cash and cash equivalents</b>	<b>(775,981)</b>	<b>746,144</b>	<b>396,826</b>
<b>Represented by :</b>			
Cash and cash equivalents at the beginning of the year	3,029,191	2,283,047	1,886,221
Cash and cash equivalents at the end of the year	2,253,210	3,029,191	2,283,047
<b>Increase / (decrease) in cash and cash equivalents</b>	<b>(775,981)</b>	<b>746,144</b>	<b>396,826</b>

The accompanying notes are an integral part of these financial statements.

# Companhia de Saneamento Básico do Estado de São Paulo - SABESP

## Notes to the Financial Statements

Years ended December 31, 2019, 2018 and 2017

Amounts in thousands of reais, unless otherwise indicated

### 1 Operations

Companhia de Saneamento Básico do Estado de São Paulo ("SABESP" or the "Company") is a mixed-capital company headquartered in São Paulo, at Rua Costa Carvalho, 300, CEP 05429-900, controlled by the São Paulo State Government. The Company is engaged in the provision of basic and environmental sanitation services in the State of São Paulo, as well as it supplies treated water and sewage services on a wholesale basis.

In addition to providing basic sanitation services in the State of São Paulo, SABESP may performs these activities in other states and countries, and can operate in drainage, urban cleaning, solid waste handling and energy markets. SABESP aims to be a world reference in the provision of sanitation services, in a sustainable, competitive and innovative manner, with a focus on customers.

As of December 31, 2019, the Company operated water and sewage services in 372 municipalities of the State of São Paulo. Most of these municipalities' operations are based on 30-year concession, program and services contracts; of the 372 municipalities served, 324 have already signed contracts, accordingly by Law 11,445/07, until December 31, 2019.

Management believes that concession agreements expired and not yet renewed will result in new contracts, disregarding the risk of discontinuity in the provision of municipal water supply and sewage services. The table below shows a summary of the contractual situation:

	December 31, 2019	December 31, 2018
Total municipalities that have already signed contracts (*)	325	307
Balance – intangible and contract assets	35,990,087	29,187,524
Percentage of intangible and contract assets	90.10%	80.14%
Gross revenue (except Construction Revenue)	13,700,777	11,297,242
Percentage of gross revenue (except Construction Revenue)	84.92%	79.26%
Municipalities with contracts under negotiation (expired):	21	35
Balance – intangible and contract assets	1,637,878	4,485,203
Percentage of intangible and contract assets	4.10%	12.32%
Gross revenue (except Construction Revenue)	451,603	858,277
Percentage of gross revenue (except Construction Revenue)	2.80%	6.02%
Municipalities with concession agreements due by 2030:	27	31
Balance – intangible and contract assets	1,181,172	1,917,142
Percentage of intangible and contract assets	2.96%	5.26%
Gross revenue (except Construction Revenue)	588,628	980,679
Percentage of gross revenue (except Construction Revenue)	3.65%	6.88%
Municipality of São Paulo:		
Percentage of intangible and contract assets	43.37%	46.97%
Percentage of gross operating revenue	44.48%	47.05%

# **Companhia de Saneamento Básico do Estado de São Paulo - SABESP**

## **Notes to the Financial Statements**

**Years ended December 31, 2019, 2018 and 2017**

**Amounts in thousands of reais, unless otherwise indicated**

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(\*) Includes the municipality of Tapiratiba, which signed a contract in October 2019, to begin operating in April 2020.

The Company operates under an authorization by public deed in the municipalities of Ilhabela, Jquitiba e Ubatuba. As of December 31, 2019, the gross revenue calculated in these municipalities totaled R\$89,165 (R\$81,385 as of December 31, 2018 and R\$81,911 as of December 31, 2017) and the intangible asset was R\$351,441 in the year ended December 31, 2019 (R\$289,922 as of December 31, 2018).

The Company's shares have been listed in the Novo Mercado (New Market) segment of B3 under the ticker symbol SBSP3 since April 2002 and on the New York Stock Exchange (NYSE) as American Depositary Receipts ("ADRs") Level III, under the SBS code, since May 2002.

Since 2008, the Company has been setting up partnerships with other companies, which resulted in the following companies: Sesamm, Águas de Andradina, Saneaqua Mairinque, Aquapolo Ambiental, Águas de Castilho, Attend Ambiental and Paulista Geradora de Energia. Although SABESP has no majority interest in the capital stock of these companies, the shareholders' agreements provide for the power of veto and casting vote in certain issues jointly with associates, indicating the shared control in the management of investees.

Management expects that with the decrease in default resulting from the signature with the municipalities of Guarulhos and Santo André, improved water security, due to the works carried out, and the generation of operating cash and the credit lines available for investment, the Company will have sufficient funds to meet its commitments and not compromise the scheduled investments.

The financial statements were approved by Management on April 30, 2020.

# **Companhia de Saneamento Básico do Estado de São Paulo - SABESP**

## **Notes to the Financial Statements**

**Years ended December 31, 2019, 2018 and 2017**

**Amounts in thousands of reais, unless otherwise indicated**

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### **2 Basis of preparation and presentation of the financial statements**

The financial statements of the Company have been prepared in accordance with the International Financial Reporting Standards – IFRS as issued by the International Accounting Standards Board – IASB. All material information related to the financial statements, and this information alone, is being disclosed and corresponds to the information used by the Company's Management in its administration.

The financial statements have been prepared under the historical cost except for certain financial instruments measured at fair value when required by the standards.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires Management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree to judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are described in Note 6.

### **3 Summary of Significant Accounting Policies**

The main accounting policies applied in the preparation of these financial statements are defined below. These policies have been applied consistently in all years presented, except for the note 3.20.

#### **3.1 Cash and cash equivalents**

Cash and cash equivalents include cash in hand, bank deposits, overdraft accounts and other short-term highly liquid investments with maturities and intention of use by the Company's Management in a period lower than three months.

#### **3.2 Financial assets and liabilities**

##### **Financial Asset - Classification**

As of December 31, 2019 and 2018, the Company classified its financial assets according to the following categories: measured at amortized cost, measured at fair value through other comprehensive income and measured at fair value through profit or loss. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of the financial assets at inception. As of December 31, 2019 and 2018, the Company did not have financial assets classified as fair value through other comprehensive income and fair value through profit or loss.



# Companhia de Saneamento Básico do Estado de São Paulo - SABESP

## Notes to the Financial Statements

Years ended December 31, 2019, 2018 and 2017

Amounts in thousands of reais, unless otherwise indicated

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- Amortized cost

This comprises financial assets that meet the following conditions: (i) it is held within the business model whose objective is to hold financial assets to collect contractual cash flows; and (ii) the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Presented as current assets, except for those with maturity of more than 12 months after the reporting date (these are classified as noncurrent assets). The Company's financial assets measured at amortized cost include cash and cash equivalents, restricted cash, balances of trade receivables, accounts receivable from related parties, other receivables, receivables from the Water National Agency – ANA. Financial assets measured at amortized cost are recorded at fair value and subsequently at amortized cost, under the effective interest rate method.

### Financial Liabilities - Classification

As of December 31, 2019 and 2018, with the adoption of IFRS 9, the Company classifies its financial liabilities measured at amortized cost. Classification depends on the purpose to which the financial liabilities were assumed. This category comprises balances payable to contractors and suppliers, borrowings and financing, services payable, balances payable from public-private partnership (PPP), and program contract commitments.

The effective interest rate method is adopted to calculate the amortized cost of a financial liability and allocate its interest expense under the respective period. The effective interest rate exactly deducts the estimated future cash flows (including fees, transaction costs and other issue costs) throughout the financial liability's estimated life or, when appropriate, during a shorter period, for initial recognition of the net carrying amount.

### Impairment

IFRS 9 – Financial Instruments introduces a new impairment model, replacing the incurred loss model for the expected credit loss model, which requires the recording of provision upon initial recognition of asset exposed to credit risk.

# Companhia de Saneamento Básico do Estado de São Paulo - SABESP

## Notes to the Financial Statements

Years ended December 31, 2019, 2018 and 2017

Amounts in thousands of reais, unless otherwise indicated

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### Trade receivables

Due to the characteristics of the Company's accounts receivable such as (i) insignificant financial component, (ii) non-complex receivables portfolio, and (iii) low credit risk, the Company adopted the simplified approach of expected credit loss, which consists in recognizing expected credit loss based on the total asset's useful life.

As of December 31, 2019 and 2018, the methodology to calculate allowance for doubtful accounts consisted of using an estimate calculated based on the average default observed in the last 12 months, per maturity range, in addition to estimating the recovery of credits overdue for more than 360 days, based on the track record of the last two years. For estimate purposes, it also considered the category of private and public customers, and segregated accounts receivable among the regular consumption accounts and agreements. The Company also concluded that the macroeconomic indicators did not have significant impact on its estimates. In order to support this understanding, the Company carried out several analyses of the correlation between indicators that could potentially have some influence the sanitation sector and its history of losses on doubtful accounts, such as Gross Domestic Product (GDP), Unemployment Rate and the Extended Consumer Price Index (IPCA).

### Deposit transactions and financial investments measured at amortized cost

The Company analyzes changes in the rates of investments in bank deposits certificates and information obtained from regulatory agencies about the financial institutions. The likelihood of delinquency over 12 months and during the terms of these investments was based on historical data provided by credit rating agencies for each credit level and analyzed in terms of sensitivity based on current returns.

These deposits and financial investments are subject to an insignificant risk of change in value.

## 3.3 Operating income

### (a) Revenue from sanitation services

Revenue from water supply and sanitation services are recognized as the water is consumed and services are provided. Revenues, including revenues unbilled, are recognized at the fair value of the consideration received or receivable for the sale of those services. Revenue is shown net of value-added tax, rebates and discounts. Unbilled revenues represent incurred revenues in which the services were provided, but not yet billed until the end of the each period and are recorded as trade receivables based on monthly estimates of the completed services.

# Companhia de Saneamento Básico do Estado de São Paulo - SABESP

## Notes to the Financial Statements

Years ended December 31, 2019, 2018 and 2017

Amounts in thousands of reais, unless otherwise indicated

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As of December 31, 2017, the Company recognized revenue when: i) products were delivered or services were rendered; ii) the amount of revenue could be reliably measured, iii) it was probable that future economic benefits would flow to the Company, and iv) it was probable that the amounts will be collected. The amount of revenue was not considered to be reliably measurable until all conditions relating to the sale had been satisfied. Amounts in dispute were recognized as revenue when collected.

As of December 31, 2019 and 2018, with the adoption of IFRS 15, since 1 January, 2018, which establishes a five-step model applicable over revenue from a contract with a customer, as a result, the Company started to recognize revenue when: i) it identifies the contracts with customers; ii) it identifies the different obligations in the contract; iii) it determines the transaction price; iv) it allocates the transaction price to the performance obligations in the contracts; and (v) it satisfies all performance obligations. Amounts in dispute are recognized as revenue when collected.

The Company analyzed sales transactions to private sector, government entities and wholesale customers and concluded IFRS 15 did not have significant impacts.

The Company adopted IFRS 15 using the cumulative effect method, with application and recognition as from first-time adoption, i.e. January 1, 2018. Consequently, the Company did not apply the requirements of IFRS 15 for comparison purposes. Accordingly, data relating to 2017 is presented based on information previously reported and prepared in accordance with IAS 18 Revenue and related interpretations.

### **(b) Construction revenue**

As of December 31, 2017, revenue from concession construction contracts was recognized in accordance with IFRIC 12 (Concession Arrangements) and IAS 11 (Construction Contracts), using the percentage-of-completion method, provided that the applicable conditions for application were fulfilled, with non-cash effect. The percentage of completion was calculated from the ratio of the actual costs incurred on the balance sheet date to the planned total costs (cost-to-cost method). Revenue from cost plus contracts was recognized by reference to the construction costs incurred during the period plus a fee earned. The fee represents the additional margin related to the work performed by the Company in relation to such construction contracts and it is added construction costs, resulting in the construction revenue.

As of December 31, 2019 and 2018, revenue from concession construction contracts is recognized in accordance with IFRS 15 (Revenue from Contracts with Customers) and IFRIC 12 (Concession Contracts), as all performance obligations are satisfied over time. During the construction of the contract, an asset is classified as contract assets, as the Company estimates that the fair value of its consideration is equivalent to expected construction costs plus margin. The fee represents the additional margin related to the work performed by the Company in relation to such construction contracts and it is added to construction costs, resulting in the construction revenue.

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### **3.4 Trade receivables and allowance for doubtful accounts**

Trade receivables are amounts due from customers for services performed in the ordinary course of business. These are classified as current assets, except when maturity exceeds 12 months after the end of the reporting period. In these cases, they are presented as noncurrent assets.

The Company establishes an allowance for doubtful accounts for receivable balances at an amount that Management considers to be sufficient to cover eventual losses, as described in note 3.2.

### **3.5 Inventories**

Inventories comprise supplies for consumption and maintenance of the water and sewage systems are stated at the lower of average cost of acquisition or net realizable value, and are classified in current assets.

### **3.6 Investment properties**

The investment properties are recorded at the acquisition or construction cost, less accumulated depreciation, except for the land group, calculated by the straight-line method at rates that consider the estimated useful life of assets. Expenditures related to repairs and maintenance are recorded in the income statement when incurred.

The Company also maintains few assets for undetermined use in the future, i.e., it is not defined if the Company will use these assets in the operation or sell them in the short term during the ordinary course of business.

### **3.7 Property, plant and equipment**

Property, plant and equipment comprise mainly administrative facilities not composing the assets, subject-matter of the concession agreements. Those assets are stated at historical acquisition or construction cost less depreciation, net of impairment charge, when necessary. Interest, other finance charges and inflationary effects deriving from financing effectively applied to construction in progress are recorded as cost of respective property, plant and equipment, in this case, for the qualifying assets, as applicable. Qualifying assets are assets that, necessarily, take a substantial period to get ready for its intended use or sale. The Company considers that substantial period means a period greater than 12 months. This period was established by considering the completion period of the majority of its constructions, which is greater than 12 months, which corresponds to one fiscal year of SABESP.

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Subsequent costs included in the existing asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that the future economic benefit associated with the item will flow to the Company and the cost of the item can be measured reliably. Repairs and maintenance are charged to the income statement during the financial period in which they were incurred.

Depreciation is calculated using the straight-line method to allocate their cost and is described in Note 15 (a).

Residual values and the useful life of assets are revised and adjusted, where applicable, at the end of each year.

Gain and losses on disposals are determined by the difference between the proceeds with the carrying amount and are recognized within other operating income (expenses) in the income statement.

### **3.8 Intangible assets**

Intangibles are stated at acquisition cost and/or construction of the underlying assets, including construction margin, interest and other finance charges capitalized during the construction period, in this case, for the qualifying assets. Qualifying assets are assets that, necessarily, take a substantial period to get ready for its intended use or sale. The Company considers that substantial period means a period greater than 12 months. This period was established by considering the completion period of the majority of its constructions, which is greater than 12 months, which corresponds to one fiscal year of SABESP.

The intangible has its amortization initiated when the intangible assets are available for use in location and the necessary condition when this asset becomes operational.

The amortization of intangible assets reflects the period over the expected future economic benefits generated by the intangible asset are consumed by the Company and can be the period of the contract or the useful life of the asset.

The amortization of the intangible assets is discontinued when the asset is totally consumed or it is disposed of, whatever occurs first.

Donations in assets, received from third parties and governmental entities, to allow the Company to render water and sewage services are not recorded in the Company's financial statements, since these assets are controlled by the concession grantor.

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Financial resources received as donations for the construction of infrastructure are recorded under “Other operating income”.

### (a) Concession agreements/program contracts/service contracts

The Company operates concession agreements including the rendering of basic sanitation, environmental, water supply and sewage services signed with the concession grantor. The infrastructure used by SABESP subject to service concession arrangements is considered to be controlled by the concession grantor when:

- (i) The grantor controls or regulates what services the operator must provide with the infrastructure, to whom it must provide them, and at what price; and
- (ii) The grantor controls the infrastructure, i.e., retains the right to take back the infrastructure at the end of the concession.

SABESP's rights over infrastructure operated under concession agreements is accounted for as an intangible asset as SABESP has the right to charge for use of the infrastructure assets, and users (consumers) have the primary responsibility to pay SABESP for the services.

The fair value of construction and other work on the infrastructure is recognized as revenue, as its fair value, when the infrastructure is built, provided that this work is expected to generate future economic benefits. The accounting policy to recognize construction revenue is described in Note 3.3 (b).

Intangible assets related to the concessions, when there is no right to receive the residual value of the assets at the end of the contract, are amortized on a straight-line basis over the period of the contract, or the useful life of the underlying asset, whichever occurs first.

Investments made and not recovered through rendering of services, in cases where there is the right to receive the residual value of the assets at the end of the contract, must be indemnified by the concession grantor, with cash or cash equivalents or also, in general with the contract extension. These investments are amortized by the useful life of asset.

The details referring to amortization of intangible assets are described in Note 14 (c).

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Law 11,445/2007 indicates, whenever possible, that basic sanitation public utilities will have the economic and financial sustainability ensured through the remuneration due to service collection, preferably as tariffs and other public prices, which may be established for each service or both jointly. Therefore, investments made and not recovered through services rendered, within original term of the contract, are recorded as intangible assets and amortized by the useful life of the asset, taking into consideration a solid track record of concession renewal and, therefore, the continuity of services.

### (b) Software license of use

Software licensing is capitalized based on the acquisition costs and other implementation costs. Amortizations are recorded according to the useful lives and the expenses associated with maintaining these are recognized as expenses when incurred.

### 3.9 Impairment of non-financial assets

Property, plant and equipment, intangibles assets and other noncurrent assets with definite useful lives, are yearly reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The Company does not record assets with indefinite useful life and assessed that there are no indications of impairment losses, mainly supported by Law 11,445/2007, which ensures that basic sanitation public utilities will have assured its economic and financial sustainability through tariffs or via indemnity.

### 3.10 Trade accounts payable and contractors

Accounts payable to contractors and suppliers are obligations to pay for goods or services purchased from suppliers in the ordinary course of business and are initially measured at fair value, which generally correspond to the bill and subsequently at amortized cost, being classified as current liabilities, except when the maturity exceeds 12 months after the reporting date and are, otherwise, presented as noncurrent liabilities.

### 3.11 Borrowings and financing

Borrowings and financing are initially recognized at fair value, upon receipt of funds, net of transaction costs. Subsequently, borrowings and financing are stated at amortized cost, as presented in Note 16. Borrowings and financing are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

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Nonconvertible bonds issued by the Company are recognized in a similar manner to borrowings.

### **3.12 Borrowing costs**

Borrowing costs attributable to acquisition, construction or production of an asset, which, necessarily, requires a substantial time period to be ready for use or sale are capitalized as part of the cost of these assets. Other borrowing costs are recognized as expenses in the period they are incurred. Borrowing costs are interest rates and other charges incurred by the Company related to borrowings, including exchange variation, as described below.

The capitalization occurs during the period in which the asset has been built, considering the weighted average rate of borrowings effective on the capitalization date.

For foreign currency-denominated borrowings or financing, the Company analyzes them as if they were contracted in local currency, restricting the capitalization of interest and/or exchange variation by the amount that would be capitalized if these were contracted in the domestic market in similar lines of credit and loans.

### **3.13 Salaries, payroll charges and contributions**

Salaries, vacations, 13<sup>th</sup> salary, profit sharing and additional payments negotiated in collective labor agreements plus related charges and contributions are recorded on the accrual basis.

The profit sharing plan for its employees is based on operational and financial targets of the Company, which creates provision when it is contractually required or when there is a practice in the past that created a constructive obligation, and is recorded on the accrual basis period as operating cost, selling, administrative expenses or capitalized in assets.

### **3.14 Provisions, legal liabilities, escrow deposits and contingent assets**

Provisions related to claims are recognized when: i) the Company has a present (legal or constructive) obligation as a result of past event; ii) it is probable that an outflow of resources that comprise economic benefits will be required to settle the obligation; and iii) the amount can be reliably estimated. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole.



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Provisions are measured at the present value of the disbursements expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

For financial statement presentation purposes, the provision is stated net of the related escrow deposits based on the legal right to offset. The bases and the nature of the provisions for civil, tax, labor and environmental risks are described in Note 20.

Escrow deposits not linked to related liabilities are recorded in noncurrent assets. Escrow deposits are adjusted for inflation.

Contingent assets are not recognized in the statements of financial position.

### 3.15 Environmental costs

Costs related to ongoing environmental programs are expensed in the income statement, when there is any indication of an event. Ongoing programs are designed to minimize the environmental impact of the operations and to manage the environmental risks inherent to the Company's activities.

### 3.16 Income taxes – current and deferred

Income taxes expenses comprise current and deferred income tax and social contributions.

#### Current tax

The provision for income tax and social contribution is based on the taxable income for the year. The income tax was accrued at rate 15%, plus 10% surtax on taxable income exceeding R\$ 240. The social contribution was accrued at rate 9% over adjusted net income. Taxable income differs from net income (profit presented in the income statement), because it excludes income and expenses taxable or deductible in other years, and excludes items not permanently taxable or not deductible. Income tax and social contribution are accrued based on legislation in place in the end of the year. Management periodically evaluates and measures the positions taken in the income tax return with respect to situations in which applicable tax regulations are subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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### Deferred tax

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction that at the time of the transaction affects neither accounting nor taxable profit nor loss, except for business combinations. Deferred income tax is determined using tax rates (and laws) effective at the end of the reporting period and expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax and social contribution assets are recognized only to the extent that it is probable that future taxable profit will be available for which temporary differences can be utilized and tax losses can be carryforward.

Deferred taxes assets and liabilities are offset when there is a legally enforceable right of offsetting current tax assets against current tax liabilities and when deferred income tax assets and liabilities are related to income taxes levied by same tax authority over the tax entity.

### **3.17 Taxes on revenues**

Revenues from sanitation services are recognized on accrual basis for PASEP (Programa de Formação do Patrimônio do Servidor Público) and Cofins (Contribuição para o Financiamento da Seguridade Social), calculated at the rates of 1.65% and 7.60%, respectively.

In addition, revenues from sanitation services are also subject to the Regulatory, Control and Oversight Fee (TRCF - Taxa de Regulação, Controle e Fiscalização), whose taxable event is the performance of regulatory, control and monitoring activities by ARSESP, calculated at 0.50% of the annual revenue directly generated by the service provided less taxes levied on the service.

The taxes related to PASEP and Cofins incident on amounts invoiced to public entities are due when invoices are received.

These taxes are calculated by the non-cumulativeness regime and presented net, as deductions from gross revenues. Tax debts calculated over "other operating income" are presented as deductions from the respective operating income.

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### 3.18 Pension obligations

#### (a) Defined benefit

The Company makes contributions to defined benefit plans on a contractual basis and sponsored thereby. The regular contributions comprise the net administrative expenses and are recognized in the income statement for the period.

Liabilities from defined benefit pension plan obligations correspond to the present value of the defined benefit obligation at the end of the reporting period, less the fair value of the plan's assets. The defined benefit obligation (G1) and (G0) are calculated on an annual basis by independent actuaries, using the projected unit credit method. The estimated future cash outflows is discounted to its present value, using the interest rates of Government bonds with maturities that approximate the maturity of the related liability.

Referring to actuarial gains and losses deriving from adjustments based on the experience and changes in actuarial assumptions are directly recorded under equity, as other comprehensive income (OCI), so that the plan's net assets or liabilities are recognized in the statement of financial position in order to reflect the full amount of plan's deficit or surplus.

In an event where a curtailment relates to only some of the employees covered by a plan, or where only part of an obligation is settled, the gain or loss includes a proportionate share of the past service cost and actuarial gains and losses. The proportionate share is determined on the basis of the present value of the obligations before and after the curtailment or settlement.

#### (b) Defined contribution

The Company makes contributions to defined contribution plans on a contractual basis and sponsored thereby, a supplementary private pension entity that provides post-employment benefits to its employees, in which the Company makes fixed and equal contributions to employees, within the limits set by regulation. In this model, the benefits paid are directly related to the amount contributed, with no deficits to be covered by the Company.

### 3.19 Financial revenues and expenses

Financial revenue is primarily comprised of interest and inflation adjustments resulting from financial investments, escrow deposits and negotiations with customer to pay by installments, calculated using the effective interest rate method.

Financial expenses are primarily comprised of interest, inflation adjustments and exchange rate changes on borrowings and financing, provisions, public-private partnership and program contract commitments. These financial income and expenses are calculated using the effective interest rate method.

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Inflation adjustments and exchange gains and losses derive from the collection or payment to third parties, as contractually required by law or court decision, and recognized on an accrual basis pro rata temporis. Inflation adjustments included in the agreements are not considered embedded derivatives, since they are deemed as inflation adjustment rates for the Company's economic scenario.

### **3.20 Leases**

As of December 31, 2018 lease agreements were classified as finance lease when property, risks and rewards inherent to the ownership of asset to the lessee are transferred. Other leases were classified as operational lease, recognized as expenses in the income statement on a straight-line basis during the lease term.

Finance lease agreements were measured based on the lower amount between the present value of minimum mandatory payments of the agreement or the fair value of asset on the start date the lease agreement. The amounts payable deriving from considerations of finance lease agreements are impacted by financial expenses and amortization of finance lease payables so that to obtain a constant interest rate. The corresponding lessor's liability is recorded as current and noncurrent debt.

On January 1, 2019, the Company applied IFRS16, which introduced one sole lease model, replacing the concept of classifying between operating and finance lease, which was applied by the Company up to December 31, 2018. The impact of this new standard is detailed in Note 4.1.

### **3.21 Other current and noncurrent assets and liabilities**

Other assets are stated at cost of acquisition, net of any impairment loss, where applicable. The amounts recognized as other liabilities are stated at known or estimated amounts, including, where applicable, related charges and inflation adjustments.

### **3.22 Dividends and interest on capital**

The Company uses the tax benefits of distributing dividends as interest on capital, as permitted by Brazilian Law and based on the Bylaws. This distribution of dividend is accounted for in accordance with Brazilian Law 9,249/95 for tax deductibility purposes, limited to the daily pro rata fluctuation of the Long-term Interest Rate (TJLP). The benefit attributed to the shareholders is recognized in the current liability against Equity, based on its by-laws. Dividends and interest on capital over the minimum established in the by-laws are recognized when approved by the shareholders in the shareholders' meeting, except for taxes incurring in the distribution of interest on capital. The tax benefit of the interest on capital is accrued in the income statement of the year, under the same recognition basis of expenses with interest on capital.

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### **3.23 Present value adjustment**

Current and noncurrent financial assets and liabilities are adjusted to present value based on discount rate at current market rate as of the transaction date, when the effects are relevant.

### **3.24 Segment information**

Operating segments are determined in a manner consistent with the internal reporting to the Company's chief operating decision maker ("CODM"), which, in the case of SABESP, is the Board of Executive Officers, to make strategic decisions, allocate resources and evaluate performance.

Consequently, the Company determined that it has one operating segment (sanitation services).

The accounting policies used to determine segment information are the same as those used to prepare the Company's financial statements.

The measure of the segment's profit or loss is operating income before other operating expenses, net and equity accounting, which excludes construction revenue and related costs.

The CODM analyzes asset and liability information on a consolidated basis. Consequently, the Company does not disclose segment information on assets and liabilities.

Substantially all of the Company's noncurrent assets and revenue generated from customers are located in São Paulo State. Consequently, financial information is not disclosed by geographic area.

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### **3.25 Translation into foreign currency**

#### **(a) Functional and reporting currency**

Items included in the financial statements are measured using the currency of the primary economic environment in which the company operates ("the functional currency"). The financial statements are presented in Brazilian reais (R\$), which is also the Company's functional currency. All financial information has been stated in reais and rounded to the next thousand, except where otherwise indicated.

#### **(b) Foreign currency translation**

Foreign currency-denominated transactions are translated into Brazilian reais using the exchange rates prevailing at the transaction dates. Statement of financial position accounts are translated by the exchange rate prevailing at reporting date.

Exchange gains and losses resulting from the settlement of these transactions and the translation of foreign currency-denominated cash assets and liabilities are recognized in the income statement, except for borrowings and financing referring to property, plant and equipment or intangible assets in progress, where exchange losses are recognized as corresponding entry to the asset while construction is in progress, as described in Note 3.12.

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### 4 Changes in accounting practices and disclosures

#### 4.1 New standards, amendments and interpretations effective for periods beginning on or after January 1, 2019

##### New standards and revisions

Standard	Description	Impact
IFRS 16 – Leases	<p>Establishes a single model for the accounting of leases in the balance sheet for lessees. A lessee recognizes a right of use asset that represents his right to use the leased asset and a lease liability that represents his obligation to make lease payments. The lessor's accounting remains similar to the current standard, that is, the lessors continue to classify the leases as financial or operating.</p> <p>IFRS 16 superseded the leases guidance including IAS 17 Leases and IFRIC 4, SIC 15 and SIC 27 Determining Whether an Arrangement Contains a Lease.</p>	(*) See impact analysis below.
IFRIC 23 – Uncertainty over Income Tax Treatments <sup>1</sup>	Clarify accounting when there are uncertainties about the treatment of taxes on profit.	The application of this interpretation did not impact the disclosures or amounts recognized in the annual financial statements.
Amendments to IFRS 9 – Prepayment Features with Negative Compensation	Clarify that, to determine whether a prepayment feature meets the condition of “solely payments of principal and interest”, the party exercising the option may pay or receive compensation for the prepayment regardless of the reason for the prepayment, that is, the prepayment features with negative compensation do not automatically break the condition of “solely payments of principal and interest”.	The application of this amendment did not impact the disclosures or amounts recognized in the annual financial statements.
Amendments to IAS 28 – Long-term interests in Associates and Joint Ventures	Clarify that IFRS 9, including its requirements for impairment, is applicable to other financial instruments in an associate or joint venture to which the equity method is not applicable. Include long-term investments that, in substance, are part of the entity's net investment in an associate or joint venture.	The application of this amendment did not impact the disclosures or amounts recognized in the annual financial statements.
Annual Improvements to IFRSs: 2015-2017 Cycle (Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23)	<ul style="list-style-type: none"> <li>• IFRS 3 – Business Combinations - clarify that when the control of a business that is a joint operation is obtained, the requirements for business combination are applied in stages, including the remeasurement of the interest previously held in the joint operation at fair value.</li> <li>• IFRS 11 – Joint Arrangements - clarify that when a party that participates in a joint operation that corresponds to a business, but does not have joint control of that operation, obtains joint control of that joint operation, its interest previously held in the joint operation is not remeasured.</li> <li>• IAS 32 – Income Taxes - clarify that the Company must recognize the consequences of income tax on dividends in profit or loss, in other comprehensive income or in equity, depending on where the transactions that generated the profit to be distributed were originally recognized.</li> <li>• IAS 23 – Borrowing Costs – clarify that if there is any specific borrowing outstanding after the corresponding asset is ready for its intended use or sale, that borrowing becomes part of the funds that the Company usually borrows to calculate the capitalization rate on borrowings in general.</li> </ul>	The application of this amendment did not impact the disclosures or amounts recognized in the annual financial statements.
Amendments to IAS 19 – Plan Amendment, Curtailment or Settlement	The amendments clarify that the cost of past services (or settlement gain or loss) is calculated by measuring the defined benefit liability (asset) based on updated assumptions and comparing the benefits offered and the plan's assets before and after the change of the plan (or its curtailment or settlement) but ignoring the effect of the asset ceiling (which may arise when the defined benefit plan is in surplus). IAS 19 clarifies that the change in the effect of the asset ceiling resulting from the change in the plan (or its curtailment or settlement) is determined in a second step and is normally recognized in other comprehensive income.	The application of this amendment did not impact the disclosures or amounts recognized in the annual financial statements.

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### **(\*) Transition to IFRS 16 - Leases**

The new standard replaces IAS 17 – “Leases” and corresponding interpretations, introducing significant changes to lessees, as it requires lessees to recognize the liability of future payments and the right of use of leased assets to virtually all lease agreements, including operating leases; specific short-term contracts or contracts with small amounts may be excluded from the scope of this new standard.

The Company’s financial statements were impacted as follows:

- a) recognition of right-of-use assets and lease liabilities in the statement of financial position, initially measured at present value of future lease payments;
- b) recognition of amortization expenses of right-of-use assets and interest expenses on lease liabilities in the income statement; and



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- c) separation of the total cash paid in these transactions between principal (recorded in financing activities) and interest (recorded in operating activities) in the statement of cash flows.

SABESP applied the requirements of IFRS 16 as of the fiscal year beginning on January 1, 2019. To this end, the transition method selected by the Company was the modified retrospective approach, whereby the amount referring to the Right-of-Use Asset equals the Lease Liability, without the cumulative effect of the initial application of this new standard recorded as adjustment to the opening balance of equity and without the restatement of comparative periods.

The new lease definitions were applied to all contracts in effect on the transition date. The change in the definition of a lease refers mainly to the concept of control. IFRS 16 establishes whether a contract contains a lease based on the fact that customer has the right to control an identified asset for a defined period of time in exchange of consideration.

The Company's Management analyzed contracts (out of a total of approximately 20,000 contracts), evaluating whether they contained leases in accordance with IFRS 16. This analysis identified mainly impacts related to vehicles and properties leased from third parties, corresponding to nearly 95% of the total amount, and less representative amounts arising from other transactions in which we identified assets leased individually or in combination in service contracts.

The recognition of lease expenses of short-term leases (12 months or less) and leases of low-value assets (below R\$ 19) will remain on a linear basis, as permitted by IFRS 16.

On January 1, 2019, the measurement of lease liabilities corresponds to the total future fixed lease payments, adjusted to present value, considering an incremental rate on borrowings, which corresponds to the incremental borrowing rate applicable to borrowings or debt issues in the local capital market, which represent the financing of these assets classified as right of use, allocating the assets based on useful life at the incremental borrowing rate per maturity term of each borrowing contract.

The Company decided to use the practical expedient of using an incremental borrowing rate of 8.97% p.y., based on the respective terms for contracts with similar characteristics.

Regarding renewals, the Company considered the assumptions, policies and internal regulations, whose term cannot be automatically renewed, and for which extensions will only occur based on an agreement between the parties in cases proven to be advantageous and necessary to attain the Company's interests, i.e. when it is reasonable certain that the option will be exercised.

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The Company applied the practical expedient relating to the definition of leases during the transition period. This means that it applied IFRS 16 to all agreements signed before January 1, 2019, identified as leases in accordance with IAS 17 and IFRIC 4.

After carrying out analysis, the Company concluded that on January 1, 2019, 70 contracts fell under the scope of IFRS 16. The adoption of this standard increased assets, due to the recognition of the right of use of leased assets, and liabilities, as shown below:

### Impact from first-time adoption of the standard

Group	Future payments of fixed leases	Impact of the discount rate	Right of use of leased assets	Lease liabilities
Vehicles	63,795	(9,313)	54,482	54,482
Properties	7,525	(1,333)	6,192	6,192
Equipment	741	(100)	641	641
Other	4,243	(603)	3,640	3,640
Leases (IAS 17)*	-	-	581,388	568,666
<b>Total</b>	<b>76,304</b>	<b>(11,349)</b>	<b>646,343</b>	<b>633,621</b>

\* Leases recognized in accordance with IAS 17 through December 31, 2018.

See additional information in Notes 14 (k), 16 and 32.

### 4.2 New standards, amendments and interpretations to existing standards that are not yet effective

The Company did not early adopt these standards and is assessing the impacts of the new and revised IFRS below on the disclosures or amounts recognized in the financial statements:

Standard	Description	Impact
IFRS 17 – Insurance Contracts <sup>2</sup>	Establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts. IFRS 17 will supersede IFRS 4 Insurance Contracts.	The Company does not expect effects from adopting this standard.
Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>3</sup>	Clarify situations involving the sale or contribution of assets between an investor and its associates or joint venture.	The Company is assessing the impacts and effects of the amendments, however, it does not expect material effects from adopting this standard.
Amendments to IFRS 3 – Definition of a Business <sup>1</sup>	Clarify that even though businesses normally present outputs (“products”), products are not necessary for an integrated set of activities and assets to qualify as businesses. To be considered as a business, an acquired set of activities and assets must include at least one input and a substantive process that together contribute significantly to the ability to create products.	The Company does not expect effects from adopting this amendment.
Amendments to IAS 1 and IAS 8 – Definition of Material <sup>1</sup>	The purpose of the amendments is to facilitate the understanding of the definition of material in IAS 1 and not to change the underlying concept of materiality in the IFRS Standards. The concept of “hidden” material information by immaterial information was included as part of the new definition.	The Company is assessing the impacts and effects of the amendments, however it does not expect material effects from adopting this standard.

# **Companhia de Saneamento Básico do Estado de São Paulo - SABESP**

## **Notes to the Financial Statements**

**Years ended December 31, 2019, 2018 and 2017**

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1 Effective for annual periods beginning on or after January 1, 2020.

2 Effective for annual periods beginning on or after January 1, 2021.

3 The effective date for these amendments was deferred indefinitely.

There are no other standards and interpretations not yet adopted that may, in the opinion of Management, have a significant impact on the result for the year of equity disclosed by the Company in its financial statements.

# Companhia de Saneamento Básico do Estado de São Paulo - SABESP

## Notes to the Financial Statements

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### 5 Risk Management

#### 5.1 Financial Risk Management

##### Financial risk factors

The Company's activities are affected by Brazilian economic scenario, making it exposed to market risk (exchange rate and interest rate), credit risk and liquidity risk. The Company's financial risk management is focused on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.

The Company has not utilized derivative instruments in any of the reported periods.

##### (a) Market risk

###### Foreign currency risk

SABESP's foreign exchange exposure implies market risks associated with currency fluctuations, since the Company has foreign currency-denominated liabilities, mainly US dollar and yen-denominated short and long-term borrowings.

The management of SABESP's foreign currency exposure considers several current and projected economic factors, besides market conditions.

This risk arises from the possibility that the Company may incur in losses due to exchange rate fluctuations that would impact liability balances of foreign currency-denominated borrowings and financing raised in the market and related financial expenses. The Company does not maintain hedge or swap contracts or any derivative financial instrument to hedge against this risk.

A significant amount of the Company's financial debt is indexed to the US dollar and Yen, in the total amount of R\$6,382,009 as of December 31, 2019 (R\$6,694,912 as of December 31, 2018). Below, the Company's exposure to exchange risk:

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	December 31, 2019		December 31, 2018	
	Foreign currency	R\$	Foreign currency	R\$
Borrowings and financing – US\$	1,051,881	4,239,817	1,191,152	4,615,476
Borrowings and financing – Yen	56,452,885	2,097,225	57,463,173	2,026,726
Interest and charges from borrowings and financing – US\$		32,242		40,193
Interest and charges from borrowings and financing – Yen		12,725		12,517
Total exposure		6,382,009		6,694,912
Borrowing cost – US\$		(20,173)		(22,390)
Borrowing cost – Yen		(3,038)		(3,113)
Total foreign-currency denominated borrowings (Note 16)		6,358,798		6,669,409

The 4.7% decrease in foreign currency-denominated debt from December 31, 2018 to December 31, 2019 was mainly due to decrease of debt in US dollar and Yen, resulting from the amortizations occurred in 2019, mitigated by the increase in exchange rates, as shown in the table below:

	December 31, 2019	December 31, 2018	Variation
US\$	R\$ 4.0307	R\$ 3.8748	4.0%
Yene	R\$ 0.03715	R\$ 0.03527	5.3%

As of December 31, 2019, if the Brazilian real had depreciated or appreciated by 10 percentage points, in addition to the impacts mentioned above, against the US dollar and Yen with all other variables held constant, effects on results before taxes on the year would have been R\$638,201 (R\$669,491 as of December 31, 2018), lower or higher, mainly as a result of exchange losses or gains on the translation of foreign currency-denominated loans.

### Interest rate risk

This risk arises from the possibility that the Company could incur losses due to fluctuations in interest rates, increasing the financial expenses related to borrowings and financing.

The Company has not entered into any derivative contract to hedge against this risk; however continually monitors market interest rates, in order to evaluate the possible need to replace its debt.

# Companhia de Saneamento Básico do Estado de São Paulo - SABESP

## Notes to the Financial Statements

Years ended December 31, 2019, 2018 and 2017

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The table below provides the Company's borrowings and financing subject to variable interest rate:

	December 31, 2019	December 31, 2018
CDI <sup>(i)</sup>	1,866,755	1,250,000
TR <sup>(ii)</sup>	1,675,203	1,637,290
IPCA <sup>(iii)</sup>	1,366,134	1,614,595
TJLP <sup>(iv)</sup>	1,381,342	1,322,854
LIBOR <sup>(v)</sup>	2,829,073	3,259,295
Interest and charges	105,667	134,725
<b>Total</b>	<b>9,224,174</b>	<b>9,218,759</b>

(i) CDI – (Certificado de Depósito Interbancário), an interbank deposit certificate

(ii) TR – Interest Benchmark Rate

(iii) IPCA – (Índice Nacional de Preços ao Consumidor Amplo), a consumer price index

(iv) TJLP – (Taxa de Juros a Longo Prazo), a long-term interest rate index

(v) LIBOR – London Interbank Offered Rate

Another risk to which the Company is exposed, is the mismatch of monetary restatement indices of its debts with those of its service revenues. Tariff adjustments of services provided by the Company do not necessarily follow the increases in the inflation indexes to adjust loans, financing and interest rates affecting indebtedness

As of December 31, 2019, if interest rates on borrowings and financing had been 1 percentage point higher or lower with all other variables held constant, the effects on profit before taxes would have been R\$ 92,242 (R\$ 92,188 as of December 31, 2018) lower or higher, mainly as a result of lower or higher interest expense on floating rate borrowings and financing.

### (b) Credit risk

Credit risk arises from cash and cash equivalents, deposits in banks and financial institutions, as well as credit exposures to wholesale basis and retail customers, including outstanding accounts receivable, restricted cash and accounts receivable from related parties. Credit risk exposure to customers is mitigated by sales to a dispersed base.

The maximum exposures to credit risk as of December 31, 2019 are the carrying amounts of instruments classified as cash and cash equivalents, deposits in banks and financial institutions, restricted cash, trade receivables and accounts receivable from related parties in the balance sheet date. See additional information in Notes 7, 8, 9 and 10.

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Regarding the financial assets held with financial institutions, the credit quality that is not past due or subject to impairment can be assessed by reference to external credit ratings (if available) or to historical information about the bank's default rates. For the credit quality of the banks, such as deposits and financial investments, the Company considers the lower rating published by three main international rating agencies (Fitch, Moody's and S&P), according to internal policy of market risk management:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Cash and cash equivalents		
AA+(bra)	2,193,725	2,966,080
AAA(bra)	41,992	45,430
Other (*)	17,493	17,681
	<u>2,253,210</u>	<u>3,029,191</u>

(\*) This category includes current accounts and investment funds in banks whose balances were not significant, and after assessing the impact of IFRS 9, concluded that expected losses are not material.

The available credit rating information of the banks, as at December 31, 2019, in which the Company made deposit transactions and financial investments in local currency (R\$ - domestic rating) during the year is as follows:

<u>Banks</u>	<u>Fitch</u>	<u>Moody's</u>	<u>Standard Poor's</u>
Banco do Brasil S/A	AA(bra)	Aa1.br	-
Banco Santander Brasil S/A	-	Aaa.br	brAAA
Brazilian Federal Savings Bank	AA(bra)	Aa1.br	brAAA
Banco Bradesco S/A	AAA(bra)	Aa1.br	brAAA
Itaú Unibanco Holding S/A	AAA(bra)	Aa1.br	brAAA

# Companhia de Saneamento Básico do Estado de São Paulo - SABESP

## Notes to the Financial Statements

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### (c) Liquidity risk

The Company's liquidity is primarily reliant upon cash provided by operating activities and borrowings and financing obtained in the domestic and international capital markets. The liquidity risk management considers the assessment of its liquidity requirements to ensure it has sufficient cash to meet its operating and capital expenditures needs, as well as the payment of debts.

The funds held by the Company are invested in interest-bearing current accounts, time deposits and securities, selecting instruments with appropriate maturity or liquidity sufficient to provide margin as determined by projections mentioned above.

The table below shows the financial liabilities of the Company, by relevant maturities, including the installments of principal and future interest to be paid according to the agreement. Future interest was calculated based on the contractual clauses for all agreements. For agreements with floating interest rate, the interest rates used correspond to the base dates above.

	2020	2021	2022	2023	2024	2025 onwards	Total
<b>As of December 31, 2019</b>							
<b>Liabilities</b>							
Borrowings and financing	3,303,736	1,574,711	1,595,436	1,317,996	1,574,770	6,715,873	16,082,522
Accounts payables to suppliers and contractors	369,631	-	-	-	-	-	369,631
Services payable	474,078	-	-	-	-	-	474,078
Public-Private Partnership – PPP	383,421	383,421	383,421	383,421	338,765	4,615,324	6,487,773
Program contract commitments	276,580	46,733	31,983	31,983	1,014	13,771	402,064

### Cross default

The Company has borrowings and financing agreements including cross default clauses, e.g., the early maturity of any debt, may imply the early maturity of these agreements. The indicators are continuously monitored in order to avoid the execution of these clauses and the more restrictive are showed in Note 16 (d).



# Companhia de Saneamento Básico do Estado de São Paulo - SABESP

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### 5.2 Capital management

The Company's objectives when managing capital are ensure its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital.

The Company monitors capital based on the leverage ratio. This ratio corresponds to net debt divided by total capital (shareholders and providers of capital). Net debt corresponds to total borrowings and financing less cash and cash equivalents. Total capital is calculated as total equity as shown in the statement of the financial position plus net debt.

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Total borrowings and financing (Note 16)	13,244,709	13,152,796
(-) Cash and cash equivalents (Note 7)	<u>(2,253,210)</u>	<u>(3,029,191)</u>
Net debt	10,991,499	10,123,605
Total equity	<u>21,635,783</u>	<u>19,551,688</u>
Total capital (shareholders + providers of capital)	<u>32,627,282</u>	<u>29,675,293</u>
Leverage ratio	<u>34%</u>	<u>34%</u>

As of December 31, 2019, the leverage ratio remained at 34% compared to December 31, 2018, mainly due to the increase in equity, generated by the 2019 earnings retention, which was mitigated by the decrease of cash and cash equivalents.

### 5.3 Fair value estimates

The Company considers that balances from trade receivables (current) and accounts payable to suppliers by carrying amount, less impairment approximate their fair values, considering the short maturity. Long-term trade receivables also approximate their fair values, as they will be adjusted by inflation and/or will bear contractual interest rates over time.

# Companhia de Saneamento Básico do Estado de São Paulo - SABESP

## Notes to the Financial Statements

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### 5.4 Financial instruments

The Company did not have financial assets classified as fair value through other comprehensive income and fair value through profit or loss. The Company's financial instruments included in the amortized cost category comprise cash and cash equivalents, restricted cash, trade receivables, balances with related parties, other receivables, and balances receivable from the Water National Agency – ANA, accounts payable to contractors and suppliers, borrowings and financing, services payable, balances payable deriving from the Public Private Partnership-PPP and program contract commitments, which are non-derivative financial assets and liabilities with fixed or determinable payments, not quoted in an active market.

The estimated fair values of financial instruments are as follows:

#### Financial assets

	December 31, 2019		December 31, 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	2,253,210	2,253,210	3,029,191	3,029,191
Restricted cash	26,018	26,018	31,900	31,900
Trade receivables	2,353,027	2,353,027	2,052,416	2,052,416
Water National Agency – ANA	32,466	32,466	49,136	49,136
Other receivables	194,178	194,178	180,681	180,681

Additionally, SABESP has financial instrument assets receivables from related parties, in the amount of R\$850,896 as of December 31, 2019 (R\$843,250 as of December 31, 2018), which were calculated in accordance with the conditions negotiated between related parties. The conditions and additional information referring to these financial instruments are disclosed in Note 10 to the financial statements. Part of this balance, in the amount of R\$747,579 (R\$737,503 as of December 31, 2018), refers to reimbursement of additional retirement and pension plan - GO and is indexed by IPCA plus simple interest of 0.5% p.m. This interest rate approximates that one practiced by federal government bonds (NTN-b) with terms similar to those of related-party transactions.

The agreement with the municipality of Santo André was recorded considering the Level 3 fair value hierarchy, due to the fact that this transaction is unobservable under market conditions, i.e., the inputs were not based on market data. All recurring and non-recurring transactions carried out by the Company, when classified at Level 3, are assessed by SABESP's Controllershship, in order to assess unobservable data and any valuation adjustments.

# Companhia de Saneamento Básico do Estado de São Paulo - SABESP

## Notes to the Financial Statements

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### Financial liabilities

	December 31, 2019		December 31, 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Borrowings and financing	13,244,709	13,937,611	13,152,796	13,116,684
Accounts payables to suppliers and contractors	369,631	369,631	465,993	465,993
Services payable	474,078	474,078	454,022	454,022
Program contract commitments	377,253	377,253	373,009	373,009
Public-Private Partnership - PPP	3,293,980	3,293,980	3,413,124	3,413,124

To obtain fair value of borrowings and financing, the following criteria have been adopted:

- (i) Agreements with Banco do Brasil and CEF (Brazilian Federal Savings Bank) were projected until their final maturities, at contractual rates (projected TR + spread) and discounted at present value by TR x DI, both rates were obtained from B3.
- (ii) Debentures were projected up to the final maturity date according to contractual rates (IPCA, DI, TJLP or TR), and discounted to present value considering the future interest rate published by ANBIMA in the secondary market, or by market equivalent rates, or the Company's share traded in the Brazilian market.
- (iii) BNDES loans are financial instruments valued at carrying amount plus contractual interest rate until the maturity date, and are indexed by long term interest rate – TJLP.

These financing have specific characteristics and the conditions defined in the financing agreements with BNDES between independent parties, and reflect the conditions for those types of loan. In Brazil, a consolidated market of long-term debts does not exist with the same characteristics of BNDES financing, the offering of credit to the entities in general, with this long-term characteristic, usually is restricted to BNDES.

- (iv) Other financing in local currency are considered by carrying amount plus contractual interest rate until maturity date, discounted to present value considering a future interest rate published by B3.

# Companhia de Saneamento Básico do Estado de São Paulo - SABESP

## Notes to the Financial Statements

Years ended December 31, 2019, 2018 and 2017

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- (v) Agreements with BID and IBRD, were projected until final maturity in origin currency, applying interest rates contracted, discounted at present value at Libor futures rate, obtained from Bloomberg. Eurobonds was priced at market value through quotes published by Bloomberg. All the amounts obtained were translated into Brazilian reais at the exchange rate of December 31, 2019.
- (vi) Agreements with JICA, were projected until final maturity in origin currency, using interest rates contracted and discounted at present value, at Tibor futures rate obtained from Bloomberg. The amounts obtained were translated into Brazilian reais at the exchange rate of December 31, 2019.
- (vii) Leases and leases based on IFRS 16 are financial instruments considered by face value restated until maturity date, whose characteristic is the indexation by fixed contractual rate. Thus, the Company discloses as market value, the amount recorded as of December 31, 2019.

Financial instruments referring to investments and borrowings and financing are classified as Level 2 in the fair value hierarchy.

Considering the nature of other financial instruments, assets and liabilities of the Company, the balances recognized in the statement of financial position approximate the fair values, taking into account the maturities close to the end of the reporting date, comparison of contractual interest rates with market rates in similar operations at the end of the reporting periods, their nature and maturity terms.

## 6 Key accounting estimates and judgments

The preparation of the financial statements requires management to make certain judgments and use assumptions and estimates based on experience and other factors considered relevant, which affect the values of assets and liabilities and which may present results that differ from actual results.

The significant judgment made by the Company is related to the recognition of revenue.

The areas that require a higher level of judgment and have greater complexity, as well as the areas in which assumptions and estimates are significant for the financial statements, are disclosed below:

### (a) Allowance for doubtful accounts

The Company establishes an allowance for doubtful accounts in an amount that Management considers sufficient to cover expected losses (see Note 9 (c)), based on an analysis of trade receivables, in accordance with the accounting policy stated in Note 3.4.

# Companhia de Saneamento Básico do Estado de São Paulo - SABESP

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The methodology for determining the allowance for doubtful accounts receivable requires significant estimates, considering a number of factors including historical receipt experience, current economic trends, estimates of forecast write-offs, the aging of the accounts receivable portfolio and expectation of future losses. While the Company believes that the assumptions used are reasonable, actual results could be different.

### **(b) Intangible assets arising from concession and program contracts**

The Company recognizes as intangible assets those arising from concession agreements. The Company estimates the fair value of construction and other work on the infrastructure to recognize the cost of the intangible asset, upon completion of the construction and provided that it will generate future economic benefits. The great majority of the Company's contracts for service concession agreements entered with each grantor is under service concession agreements in which the Company has the right to receive, at the end of the contract, a payment equivalent to the unamortized asset balance of the concession intangible asset, which in this case, are amortized over the useful life of the underlying physical assets, thus at the end of the contract, the remaining value of the intangible would be equal to the residual value of the related fixed asset.

Concession intangible assets under Concession agreements, Service contracts and Program contracts, in which, at the end of the contract, the Company has no right to receive a payment equivalent to the unamortized asset balance of the concession intangible, are amortized on a straight-line basis over the useful life of asset or contract period, which occurs first. Additional information on the accounting for intangible assets arising from concession agreements are described in Notes 3.8 and 14.

The recognition of fair value for the intangible assets arising on concession agreements is subject to assumptions and estimates, and the use of different assumptions could affect the balances recorded. Different assumptions and estimates and changes in the useful lives of the intangible assets may have relevant impacts on the results of operations.

### **(c) Pension benefits**

The Company sponsors the defined benefit plan and the defined contribution plan, as described in Note 20.

The liability recognized in the balance sheet in relation to defined benefit pension plans is the present value of defined benefit obligation on the balance sheet date, less the fair value of plan's assets. The benefit obligation is calculated yearly by independent actuaries, applying the projected credit unit method. The present value of defined benefit obligation is determined by discounting the estimated future cash outflows, using interest rates compatible with the market, which are denominated in currency in which benefits will be paid and with maturity terms close to those of corresponding pension plan obligation.

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### (d) Deferred income tax and social contribution

The Company recognizes and settles taxes on income based on the results of operations verified according to the Brazilian Corporation Law, taking into consideration the provisions of the tax laws. The Company recognizes deferred tax assets and liabilities based on the differences between the accounting balances and the tax bases of assets and liabilities.

The Company regularly reviews the recoverability of deferred tax assets and recognizes a provision for impairment if it is probable that these assets will not be realized, based on the historic taxable income, in the projection of future taxable income and the estimated period of reversing temporary differences. These calculations require the use of estimates and assumptions. The use of different estimates and assumptions could result in provision for impairment of all or a significant amount of deferred tax assets. Additional information related to deferred taxes is described in Note 18.

### (e) Provisions

The provisions for civil, labor, environmental and tax risks are recorded based on Note 3.14. Judgments regarding future events may differ significantly from actual estimates and could exceed the amounts provisioned. Provisions are revised and adjusted to take into consideration changes in circumstances involved. Additional information of these legal proceedings are disclosed in Note 19.

## 7 Cash and cash equivalents

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Cash and banks	176,497	151,558
Cash equivalents	2,076,713	2,877,633
Total	<u>2,253,210</u>	<u>3,029,191</u>

# Companhia de Saneamento Básico do Estado de São Paulo - SABESP

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Cash and cash equivalents include cash, bank deposits and high-liquidity short-term financial investments, mainly represented by repurchase agreements (accruing CDI interest rates), whose original maturities are lower than three months, which are convertible into a cash amount and subject to an insignificant risk of change in value, deposited in a fund, in which SABESP is exclusive quotaholder, at Banco do Brasil.

The fund is intended, exclusively, to receive funds from SABESP, and as of December 31, 2019, it was essentially composed of investments in governments bonds, repurchase agreements and fixed income financial assets.

Due to SABESP is the exclusive quotaholder and has control over the fund, it should be consolidated in the Company's financial statements, however, due to the fact that 99% of the balance has already been presented in SABESP's financial statements under the items of cash and cash equivalents and the magnitude of the remaining balance, referring to the administration and maintenance expenses of the fund, is irrelevant (R\$ 205), the Company chose not to present the balances between Parent Company and Consolidated due to the fact that there is no significant difference between such balances and for not generating relevant disclosure to users of the financial statements.

The average yield of cash equivalents corresponds to 98.02% of CDI in December 2019 (98.28% in December 2018).

### 8 Restricted cash

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Agreement with the São Paulo municipal government (i)	17,068	19,977
Brazilian Federal Savings Bank – escrow deposits (ii)	2,245	5,880
Other	6,705	6,043
	<u>26,018</u>	<u>31,900</u>

- (i) Refers to the amount deducted from the 7.5% of municipal revenue transferred to the Municipal Fund, corresponding to eventual amounts unpaid by direct management bodies, foundations and government agencies, as established in the agreement entered into with the municipal government of São Paulo; and
- (ii) Refers to savings account for receiving escrow deposits regarding lawsuits with final and unappealable decisions in favor of the Company, which are blocked as per contractual clause.

# Companhia de Saneamento Básico do Estado de São Paulo - SABESP

## Notes to the Financial Statements

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### 9 Trade receivables

#### (a) Financial position balances

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Private sector:		
General (i) and special (ii) customers	1,505,150	1,372,667
Agreements (iii)	378,341	347,679
	<u>1,883,491</u>	<u>1,720,346</u>
Government entities:		
Municipal	472,666	575,733
Federal	2,805	3,876
Agreements (iii)	277,047	274,906
	<u>752,518</u>	<u>854,515</u>
Wholesale customers – Municipal governments: (iv)		
Mogi das Cruzes	3,278	3,056
São Caetano do Sul	9,871	2,869
	<u>13,149</u>	<u>5,925</u>
Unbilled supply	745,884	571,072
Subtotal	3,395,042	3,151,858
Allowance for doubtful accounts	(1,042,015)	(1,099,442)
Total	<u>2,353,027</u>	<u>2,052,416</u>
Current	2,137,752	1,843,333
Noncurrent	215,275	209,083
	<u>2,353,027</u>	<u>2,052,416</u>



# **Companhia de Saneamento Básico do Estado de São Paulo - SABESP**

## **Notes to the Financial Statements**

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- (i) General customers - residential and small and mid-sized companies
- (ii) Special customers - large consumers, commercial, industries, condominiums and special billing consumers (fixed demand agreements, industrial waste, wells, etc.).
- (iii) Agreements - installment payments of past-due receivables, plus monetary adjustment and interest, according to the agreements.
- (iv) Wholesale basis customers - municipal governments - This balance refers to invoices issued as a result of services provided to municipalities, which are responsible for distributing to, billing and charging final customers. The balance presented does not include the municipality of Mauá, as it is questioning in court the tariffs charged. Therefore, SABESP did not record revenues and receivables of this municipality, due to low expectation of realization, in accordance with IFRS 15 and IFRS 9, as the Company does not believe that it is likely that it will receive the consideration it is entitled to in exchange for the services transferred to the municipalities.

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The historical value of unrecognized receivables from these municipalities is as follows:

	December 31, 2019	December 31, 2018
Wholesale customers – Municipal governments:		
Mauá	677,298	601,910
Santo André (*)	-	1,164,399
<b>Total</b>	<b>677,298</b>	<b>1,766,309</b>

### (\*) Agreement with the municipality of Santo André

On July 31, 2019, the Company entered into a debt payment and receipt Consent Decree with the Municipality of Santo André (“Santo André”) and the Santo André Municipal Water and Sanitation Service (SEMASA), aiming to settle SEMASA’s existing debt upon the transfer of sanitation services to SABESP for 40 years.

On the same date, the São Paulo State, the Municipality of Santo André and SABESP signed the Public Service Provision Agreement of Water Supply and Sewage Services in the Municipality of Santo André, through which the São Paulo State and the Municipality of Santo André granted SABESP the right to provide services for a period of 40 years.

Due to the signature of the service agreement the Company recognized as revenue, under the fair value method, the amount of R\$ 1,336,908, and the respective trade receivable was given as payment for the transfer of sanitation services for a 40-year period and incorporated into the intangible assets.

Due to the service transfer, the Company paid R\$ 70,000 to settle administrative costs and terminate the services provided by SEMASA. Additionally, R\$ 90,000 was transferred in two annual installments, the first of which due 30 days after the signature of the agreement, and the second by February 28, 2020; these amounts shall be allocated to sanitation initiatives. The total amount of R\$ 160,000 was recorded in intangible assets against current liabilities.

From the first quarter of 2021, 4% of gross revenue earned in the municipality by SABESP, net of Cofins/Pasep, ARSESP’s Regulation, Control and Oversight Fee (TRCF) and any business charges levied on revenue, will be allocated to environmental sanitation, housing, drainage and other urban infrastructure services in the Municipality.

# Companhia de Saneamento Básico do Estado de São Paulo - SABESP

## Notes to the Financial Statements

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Receivables mentioned above, that were discussed in court, in the form of registered warrants, will be held as collateral of compliance with the Adjustment Instrument. The payment of the registered warrants will be suspended during the term of the Decree.

The amount collateralized will be progressively reduced according to the following rules:

- Until the seventh (7<sup>th</sup>) anniversary of the signature date of the Agreement, Credits 1 and 2 will be reduced by an amount equivalent to one eighty-fourth (1/84) per full month, releasing the collateralized amount related to Credit 1 followed by the amount related to Credit 2;
- After the seventh (7<sup>th</sup>) anniversary and up to the twelfth (12<sup>th</sup>) anniversary of the Agreement's signature date, Credits 3 and 4 will be reduced by an amount equivalent to one-sixtieth (1/60) per full month, releasing the collateralized amount related to Credit 3 followed by the amount related to Credit 4;
- After the twelfth (12<sup>th</sup>) anniversary and up to the twenty-seventh (27<sup>th</sup>) anniversary of the Agreement's signature date, Credit 5 will be reduced by an amount equivalent to one-one hundred and eightieth (1/180) per full month;
- After the twenty-seventh (27<sup>th</sup>) anniversary and up to the thirty-fifth (35<sup>th</sup>) anniversary of the Agreement's signature date, Credits 6 and 7 will be reduced by an amount equivalent to one ninety-sixth (1/96) per full month, releasing the collateralized amount related to Credit 6 followed by the amount related to Credit 7;
- After the thirty-fifth (35<sup>th</sup>) anniversary and up to the fortieth (40<sup>th</sup>) anniversary of the Agreement's signature date, Credits 8 and 9 will be reduced by an amount equivalent to one-sixtieth (1/60) per full month, releasing the collateralized amount related to Credit 8 followed by the amount related to Credit 9.

The measurement of the non-recurring fair value for the transaction with Santo André was categorized within level 3 of the fair value hierarchy, in its initial recognition, in the amount of R\$ 1,336,908.

# Companhia de Saneamento Básico do Estado de São Paulo - SABESP

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The Company considered the discounted cash flow technique to carry out the evaluation, based on the judgment that the market participants could and / or should apply. The discounted cash flow considered the present value of the net cash flows expected to be generate with the Company's assumption water supply and sewage services for a period of 40 years, taking into consideration the following unobservable inputs:

- Average tariff and average volume of water and sewage by economy based on SEMASA's average consumption histogram, referring to the period between January and December 2018;
- Indirect revenues based on historical data of the municipalities operated by SABESP in the Metropolitan Region of São Paulo;
- Average unit cost of the Metropolitan Region of São Paulo with synergy, due to economies of scale and the use of existing structures at SABESP (administrative and operational);
- Personnel costs - in the first two years, considering the payment of employees assigned by SEMASA;
- Costs and investments in the integrated metropolitan supply system prorated based on the volume of water supplied to the municipality;
- Exclusive investments by the municipality following the Municipal Sanitation Plan;
- Complementary investments to be made by the municipality and paid by SABESP, corresponding to na installment of R\$ 90 million in the first year, plus 4% of net revenue as of the second year;
- Projected cash flow discount rate - 8.11% per year (WACC).

### (b) The aging of trade receivables is as follows

	December 31, 2019	December 31, 2018
Current	1,762,606	1,449,927
Past-due:		
Up to 30 days	330,488	330,310
From 31 to 60 days	164,913	145,153
From 61 to 90 days	86,765	83,679
From 91 to 120 days	58,971	54,486
From 121 to 180 days	81,003	89,740
From 181 to 360 days	33,206	44,856
Over 360 days	877,090	953,707
Total past-due	1,632,436	1,701,931
Total	3,395,042	3,151,858

# Companhia de Saneamento Básico do Estado de São Paulo - SABESP

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The increase in the current balance was mainly due to the assumption of the provision of sanitation services to the municipalities of Guarulhos and Santo André, as well as by the 4.39% tariff increase.

### (c) Allowance for doubtful accounts

	<u>December 31, 2019</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Balance at beginning of the year	1,099,442	1,067,973	1,068,747
Private sector / government entities	54,064	61,315	75,973
Recoveries	<u>(111,491)</u>	<u>(29,846)</u>	<u>(76,747)</u>
Net additions for the year	(57,427)	31,469	(774)
Balance at the end of the year	<u>1,042,015</u>	<u>1,099,442</u>	<u>1,067,973</u>

# Companhia de Saneamento Básico do Estado de São Paulo - SABESP

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Reconciliation of estimated/historical losses of income	December 31, 2019	December 31, 2018	December 31, 2017
Write-offs	(179,929)	(184,555)	(171,729)
(Losses)/reversal with state entities - related parties	(5,597)	1,294	21,510
(Losses) with private sector / government entities	(54,064)	(61,315)	(75,973)
(Losses)/reversal with wholesale customers	-	(29,458)	9,781
Recoveries	111,491	107,307	133,730
Amount recorded expense	(128,099)	(166,727)	(82,681)

The Company does not have customers representing 10% or more of its total revenues.

## 10 Related-Party Balances and Transactions

### (a) Accounts receivable, interest on capital payable, revenue and expenses with GESP

	December 31, 2019	December 31, 2018
Accounts receivable		
Current:		
Sanitation services (i)	131,851	122,522
Allowance for losses (i)	(39,417)	(33,820)
Reimbursement for retirement and pension benefits paid (G0):		
- monthly flow (payments) (ii) and (vi)	31,584	22,926
- GESP Agreement – 2015 (iv)	68,888	62,520
Total current	192,906	174,148
Noncurrent:		
Agreement for the installment payment of sanitation services	10,883	17,045
Reimbursement for retirement and pension benefits paid (G0):		
- GESP Agreement – 2015 (iv)	647,107	652,057
Total noncurrent	657,990	669,102
Total receivables from shareholders	850,896	843,250
Assets:		
Sanitation services	103,317	105,747
Reimbursement of additional retirement and pension benefits (G0)	747,579	737,503
Total	850,896	843,250
Liabilities:		
Interest on capital payable to related parties	401,963	338,407

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	2019	2018	2017
Revenue from sanitation services	556,574	501,146	462,989
Payments received from related parties	(546,365)	(509,672)	(471,081)
Receipt of GESP reimbursement referring to Law 4,819/58	(152,112)	(173,516)	(192,889)

### (i) Sanitation services

The Company provides water supply and sewage services to the São Paulo State Government and other companies related to it in accordance with usual market terms and conditions, as considered by management, except for the settlement of credits which can be made according to items (iii) of this Note.

# Companhia de Saneamento Básico do Estado de São Paulo - SABESP

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The Company recognized R\$39,417 as of December 31, 2019 (R\$33,820 as of December 31, 2018 and R\$35,114 as of December 31, 2017) as allowance for losses in accordance of IFRS 9.

### (ii) Reimbursement of additional retirement and pension benefits paid

Refers to amounts of supplementary retirement and pension benefits provided for in State Law 4,819/58 ("Benefits") paid by the Company to former employees and pensioners, referred to as Go.

Under the Agreement referred on item (iii) GESP recognizes its liability from charges arising from the Benefits, provided that the payment criteria set forth by the State Department of Personnel (DDPE), based on legal guidance of the Legal Consultancy of the Department of Finance and of the State Attorney General's Office (PGE).

As discussed on item (vi), during the assessment of the debt due from GESP to the Company there were certain divergences in the calculation and eligibility criteria of the benefits paid by the Company on behalf of GESP.

See additional information about the Go plan in Note 20 (b) (iii).

In January 2004, the payments of supplement retirement and pension benefits were transferred to the Department of Finance and would be made in accordance with the calculation criteria determined by the PGE. As a result of a court decision, the responsibility for making the payments returned to SABESP, as originally established.

### (iii) GESP Agreement

On December 11, 2001, the Company, the São Paulo State Government (through the State Department of Finance Affairs, currently Department of Finance) and the Water and Electricity Department (DAEE), with the intermediation of the State Department of Sanitation and Energy (former Department of Water Resources, Sanitation and Construction Works), entered into the Obligations, Payment Commitment and Other Covenants Acknowledgement and Consolidation Agreement ("GESP Agreement") for the settlement of outstanding debts between GESP and the Company related to sanitation services and to the retirement benefits.

In view of the strategic importance of the Taiaçupeba, Jundiá, Biritiba Mirim, Paraitinga and Ponte Nova reservoirs for ensuring and maintaining the Alto Tietê water volume, the Company agreed to receive them as partial repayment of the reimbursement related to the Benefits. The DAEE would transfer the reservoirs to the Company, replacing the amount owed by GESP. However, the São Paulo State Public Prosecution Office challenges the legal validity of this agreement, and its main argument is the lack of bidding and the absence of a specific legislative authorization for disposal of DAEE's assets. There is an unfavorable decision to SABESP not yet unappealable. See additional information in item (iv) below.



# **Companhia de Saneamento Básico do Estado de São Paulo - SABESP**

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On March 22, 2004, the Company signed the first amendment to the GESP Agreement, settling the amounts due by the São Paulo State Government for water supply and sewage services provided, monetarily adjusted through February 2004; and formally authorizing the offset of amounts due by the São Paulo State Government with interest on capital declared by the Company and any other debt owed to the São Paulo State Government as of December 31, 2003, monetarily adjusted through February 2004; and defining the payment conditions of the remaining liabilities of the São Paulo State Government for the receipt of the water supply and sewage services.

On December 28, 2007, the Company and the São Paulo State Government, represented by the Department of Finance, signed the second amendment to the terms of the original GESP Agreement, agreeing upon the payment in installments of the remaining balance of the First Amendment. In December 2012 the last installment was paid.

On November 17, 2008, GESP, SABESP and DAEE signed the third amendment to the GESP Agreement, through which GESP recognized a debt balance payable to SABESP of R\$915,251, monetarily adjusted until September 2008 in accordance with the fluctuation of the IPCA-IBGE, corresponding to the Undisputed Reimbursement, determined by FIPECAFI. SABESP accepted on a provisional basis the reservoirs as part of the payment of the Undisputed Reimbursement and offered to GESP a provisional settlement, recognizing a credit totaling R\$696,283, corresponding to the value of the reservoirs in the Alto Tietê system.

The Company did not recognize the reimbursement receivable of R\$696,283 related to the reservoirs, as it is not virtually certain that will be transferred by the State. In March 2015, Sabesp and GESP entered into an agreement to pay the amounts receivable, totaling R\$696,283 (more information in item (iv) of this note).

In addition, the third amendment provides for the regularization of the monthly flow of benefits. While SABESP is liable for the monthly payment of benefits, the State shall reimburse SABESP based on the criteria identical to those applied when determining the Undisputed Reimbursement. Should there be no preventive court decision, the State will assume the flow of monthly payment of benefits portion deemed as undisputed.

(iv) Agreement with the São Paulo State Government entered into in 2015

On March 18, 2015, the Company, the State of São Paulo and the Department of Water and Electricity (DAEE), and the Sanitation and Water Resources Department as the intervening party, entered into a Term of Agreement in the amount of R\$1,012,310, of which R\$696,283 refer to the principal of the Undisputed Amount mentioned in item (iii) and R\$316,027 corresponding to the inflation adjustment of the principal until February 2015.

# Companhia de Saneamento Básico do Estado de São Paulo - SABESP

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The Principal Amount will be paid in 180 installments, as follows:

- The first 24 installments were settled by immediately transferring 2,221,000 preferred shares issued by Companhia de Transmissão de Energia Elétrica Paulista - CTEEP, totaling R\$87,174, based on the share closing on March 17, 2015, which were sold on April 20, 2016; and
- The amount of R\$609,109, payable in 156 monthly installments, was adjusted by IPCA (Extended Consumer Price Index) until the initial payment date, on April 5, 2017. As of this date, installments are being adjusted by IPCA plus simple interest of 0.5% per month.

Considering the lawsuit which objects the possibility of transferring the reservoirs is pending final and unappealable court decision, the agreement also provides for the following situations:

- If transfer is possible and the Reservoirs are effectively transferred to SABESP and registered at the notary's office, SABESP will reimburse to the State the amounts paid in replacement of Reservoirs (Principal Amount) in 60 monthly installments adjusted by IPCA until the date of payment of each installment; and
- If the transfer of Reservoirs is not possible, the State will pay to SABESP, in addition to the Principal Amount, the inflation adjustment credit of R\$316,027 in 60 installments, starting these payments at the end of Principal Amount installment payment. The amount will be adjusted by IPCA to the start date of payments and, as of this date, IPCA will be incurred plus 0.5% simple interest rates/month over the amount of each installment.

As of December 31, 2019, the balance receivable totaled R\$ 68,888 in current assets (R\$ 62,520 as of December 31, 2018) and R\$ 647,107 in noncurrent assets (R\$ 652,057 December 31, 2018).

### (v) Disputed Amounts

As mentioned before, on November 17, 2008 the Company and the State signed the third amendment to the GESP Agreement, when the reimbursements called disputed and undisputed were quantified. The amendment established the efforts to calculate the so-called Disputed Reimbursement of the Benefits. Under the fourth clause of the amendment, the Disputed Reimbursement represents the difference between the Undisputable Reimbursement and the amount actually paid by the Company as pension benefits and pensioners set out in Law 4,819/58, for which, the Company understands, the State of São Paulo is originally liable, but paid by SABESP under a court order.

# Companhia de Saneamento Básico do Estado de São Paulo - SABESP

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By entering into the third amendment, the State's Legal Representative (PGE) agreed to reassess the differences that gave rise to the Disputed Amount of benefits set out in Law 4,819/58. At the time, the expectation was based on the willingness of the PGE to reanalyze the issue and the implied right of the Company to the reimbursement, including based on opinions from outside legal advisors.

However, the latest opinions issued by the PGE and received on September 4 and 22, 2009 and January 4, 2010, refute the reimbursement of previously defined as Disputed Amount.

Even though the negotiations with the State are still in progress, it is not possible to assure that the Company will recover the disputed receivables without dispute.

As part of the actions intended to recover the receivables that management considers due by the State, related to discrepancies in the reimbursement of the pension benefits paid by the Company, SABESP: (i) on March 24, 2010, reported to the controlling shareholder the official letter approved by the executive committee, proposing that the matter be discussed at the São Paulo Stock Exchange (B3) Arbitration Chamber; (ii) in June 2010, presented to Department of Finance a proposal to solve the outstanding items, such proposal was not accepted; (iii) on November 9, 2010, filed a judicial action against the State of São Paulo pleading the entire reimbursement related to employee benefits set out in Law 4,819/58 to finalize the discussion between the Company and GESP. Despite the legal action, the expectation of which is a possible gain, the Company will persist to obtain an agreement with GESP since the management believes that it is the best course of action to the Company and to its shareholders than waiting until the end of the lawsuit.

As of December 31, 2019 and 2018, the disputed amounts between SABESP and GESP, corresponding to additional retirement and pension benefits paid (Law 4,819/1958), totaled R\$ 1,195,217 and R\$ 1,107,104, respectively. The Company recorded allowances for doubtful accounts for such amounts.

(vi) Actuarial liability

The Company also recognized an actuarial liability corresponding to additional retirement and pension benefits paid to employees, retired employees and pensioners of Plan GO. As of December 31, 2019 and 2018, the amounts corresponding to the actuarial liability totaled R\$ 3,046,255 and R\$ 2,606,107, respectively. For more information on additional retirement and pension benefits, see Note 20 (b).

# Companhia de Saneamento Básico do Estado de São Paulo - SABESP

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### **(b) Use of reservoirs – EMAE**

Empresa Metropolitana de Águas e Energia S.A. - EMAE planned to receive for the credit and obtain financial compensation for alleged past and future losses in electricity generation, due to water collection, and compensation for costs already incurred and to be incurred with the operation, maintenance and inspection of the Guarapiranga and Billings reservoirs used by SABESP in its operations.

On October 28, 2016, the Company entered into an agreement based on a Private Transaction Agreement and Other Adjustments aimed to fully and completely settle the disputes involving the two companies and the SABESP will continue using the reservoirs.

As of December 31, 2019, the Company recorded R\$16,653 and R\$87,231 in Other Liabilities, under current and noncurrent liabilities, respectively (in December 31, 2018, R\$16,055 and R\$90,518). In 2019, the Company paid the amount of R\$17,246.

### **(c) Agreements with reduced tariffs with State and Municipal Government Entities that joined the Rational Water Use Program (PURA)**

The Company has signed agreements with government entities related to the State Government and municipalities where it operates that benefit from a reduction of 25% in the tariff of water supply and sewage services when they are not in default. These agreements provide for the implementation of the rational water use program, which takes into consideration the reduction in water consumption.

### **(d) Guarantees**

The State Government provides guarantees for some borrowings and financing of the Company and does not charge any fee with respect to such guarantees.

### **(e) Personnel assignment agreement among entities related to GESP**

The Company has personnel assignment agreements with entities related to the State Government, whose expenses are fully passed on and monetarily reimbursed. In 2019, the expenses related to personnel assigned by SABESP to other state government entities amounted to R\$4,881 (R\$8,903 in 2018 and R\$9,853 in 2017).

In 2019, the expenses related to personnel assigned by other entities to SABESP were R\$ 139 (In 2018, the expenses related to personnel assigned by other entities to SABESP were R\$ 116 and in 2017 there were no expenses related to personnel assigned by other entities to SABESP).

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### (f) Non-operating assets

As of December 31, 2019, the Company had an amount of R\$3,613 related to a land and lent structures (as of December 31, 2018 – R\$ 969).

### (g) SABESPREV

The Company sponsors a private defined benefit pension plan (G1 Plan), which is operated and administered by SABESPREV. The net actuarial liability recognized as of December 31, 2019 amounted to R\$314,677 (R\$363,902 as of December 31, 2018), according to Note 20 (b).

### (h) Compensation of Management Key Personnel

- Compensation:

SABESP's compensation policy for the Management and officers is set out according to guidelines of the São Paulo State Government, issued by the CODEC (State Capital protection Board), and are based on performance, market competitiveness, or other indicators related to the Company's business, and is subject to approval by shareholders at an Annual Shareholders' Meeting.

The Executive Officers' fees are also defined by government authorities. Management and Fiscal Council's compensation is equivalent to 30% and 20%, respectively, of the Executive Officers' fee, contingent on attendance of at least one monthly meeting.

The objective of the compensation policy is to set a private sector management paradigm to retain its staff and recruit competent, experienced and motivated professionals, considering the level of management efficiency currently required by the Company.

In addition to the monthly fee, the members of the Board of Directors, Fiscal Council and the Board of Executive Officers receive annual reward equivalent to a monthly fee, calculated on a prorated basis in December of each year. The purpose of this reward is to correspond to the thirteenth salary paid to the Company's employees, as officers and directors' relationship with the Company is governed by its bylaws and not the labor code.

Benefits paid only to Statutory Officers - meal ticket, basket of food staples, medical care, annual paid rest typified as a paid leave of 30 calendar days, and payment of a premium equivalent to one third of the monthly fee and bonuses.

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SABESP pays bonuses for the purposes of compensating Executive Officers, in accordance with the guidelines of the São Paulo State Government, as an incentive policy, as long as the Company records quarterly, semiannual, and yearly profits, and distributes mandatory dividends to shareholders, even if in the form of interest on capital. Annual bonuses cannot exceed six times the monthly compensation of the officers/directors or 10% of the interest on capital paid by the Company, prevailing the shortest amount.

Expenses related to the compensation to the members of its Board of Directors, Fiscal Council and Board of Executive Officers amounted to R\$5,344, R\$4,077 and R\$3,813 for 2019, 2018 and 2017, respectively. An additional amount of R\$1,348, related to the bonus program, was recorded in 2019 (R\$538 in 2018 and R\$556 in 2017).

### (i) Loan agreement through credit facility

The Company holds interest in certain Special Purpose Entities (SPEs), not holding the majority interest but with cast vote and power of veto in some issues, with no ability to use such power of veto in a way to affect returns over investments. Therefore, these SPEs are considered for accounting purposes as joint arrangements.

The Company entered into a loan agreement through credit facility with the SPE Aquapolo Ambiental S/A to finance the operation of this company, until the borrowings and financing requested with financial institutions is granted.

As of December 31, 2019, the balance of principal and interest related to this agreement was R\$ 34,992, recorded in Noncurrent Assets under "Other Accounts Receivables" (December 31, 2018 - R\$ 32,857) with interest at the CDI rate + 1.2% per year.

The loan agreement originally matured on April 30, 2015 but was extended to October 30, 2015 and on November 25, 2015 a new amendment changed the payment schedule for three annual installments, the first of which maturing on December 30, 2021 and the last on December 30, 2023.

### (j) "Se Liga na Rede" (Connect to the Network Program)

The State Government enacted the State Law no. 14,687/1912, creating the pro-connection program, destined to financially subsidize the execution of household branches necessary to connect to the sewage collecting networks, in low income households which agreed to adhere to the program. The program expenditures, except for indirect costs, construction margin and borrowing costs are financed with 80% of funds deriving from the State Government and the remaining 20% invested by SABESP, which is also liable for the execution of works. As of December 31, 2019, the program total amount was R\$117,272 (R\$100,928 as of December 31, 2018), there was no balance receivable as of December 31, 2019 and 2018 from related parties. The amount of R\$65,099 (R\$49,919 as of December 31, 2018) was recorded in the group of intangible assets and R\$52,174 was reimbursed by GESP (R\$51,009 as of December 31, 2018) from the beginning of the program until December 31, 2019.

# Companhia de Saneamento Básico do Estado de São Paulo - SABESP

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### 11 Investments

The Company holds interest in certain Special Purpose Entities (SPE). Although SABESP has no majority shares of its investees, the shareholders' agreement provides for the power of veto in certain management issues, however, with no ability to use such power of veto in a way to affect returns over investments, indicating participating shared control (joint venture – IFRS 11).

The Company holds interest recognized by the equity accounting in the following investees:

#### Sesamm

As of August 15, 2008, the Company, together with GS Inima Brasil Ltda (“GS Inima”), successor of Técnicas y Gestion Medioambiental S.A.U. (“TGM”) and GS Inima Environment S/A (currently OHL Medio Ambiente); and Estudos Técnicos e Projetos ETEP Ltda. (“ETEP”), succeeded by ECS Operações e Participações Ltda (“ECS”), incorporated Sesamm – Serviços de Saneamento de Mogi Mirim S/A for a period of 30 years from the date the concession agreement with the municipality for the purpose of providing complementary services to the sewage diversion system and implementing and operating sewage treatment system in the municipality of Mogi Mirim, including the disposal of solid waste.

On October 30, 2019, ECS shares were transferred to GS Inima Brasil, after the transfer SABESP continues to hold a 36% interest and GS Inima has increased to 64%.

Sesamm's capital as of December 31, 2019, totaled R\$ 19,532, and was represented by 19,532,409 registered common shares without a par value.

The operations initiated in June 2012.

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### Águas de Andradina

As of September 15, 2010, the Company, together with Companhia de Águas do Brasil – Cab Ambiental, currently Iguá Saneamento S/A (“Iguá”), incorporated Águas de Andradina S.A., with indefinite term, for the purpose of providing water supply and sewage services to the municipality of Andradina.

As of December 31, 2019, the capital of Águas de Andradina totaled R\$ 17,936, divided into 17,936,174 registered common shares without a par value. SABESP holds 30% of its equity interest and Iguá 70%. The amount of R\$ 12 is recorded under investee's equity, as advance for future capital increase.

The Company pledges as guarantee 100% of its shares in Águas de Andradina as a counter guarantee for the issuance of Letters of Guarantee with BNDES.

The operations initiated in October 2010.

### Águas de Castilho

As of October 29, 2010, the Company, together with Águas do Brasil – Cab Ambiental, currently Iguá Saneamento S/A (“Iguá”), incorporated Águas de Castilho, for the purpose of providing water supply and sewage services to the municipality of Castilho.

As of December 31, 2019, the company's capital was R\$ 2,785, and was represented by 2,785,225 registered shares without a par value. SABESP holds a 30% interest and Iguá 70%.

The Company pledges as guarantee 100% of its shares in Águas de Castilho as a counter guarantee for the issuance of Letters of Guarantee with BNDES.

The operations initiated in January 2011.

### Saneaqua Mairinque

As of June 14, 2010, the Company, together with BRK Ambiental Participações S/A (“BRK”) currently Odebrecht Utilities S/A, former Foz do Brasil S.A., incorporated Saneaqua Mairinque S/A, with indefinite term, for the purpose of exploring water supply and sewage services of the municipality of Mairinque.

As of December 31, 2019, the capital of Saneaqua Mairinque totaled R\$ 4,183, and was represented by 3,141,239 registered common shares without a par value. SABESP holds a 30% interest and BRK 70%.



# **Companhia de Saneamento Básico do Estado de São Paulo - SABESP**

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As guarantee for the financing for Saneaqua Mairinque, the Company pledges 100% of its shares in said company..

The operations initiated in October 2010.

### Attend Ambiental

As of August 23, 2010, SABESP, jointly with Companhia Estre Ambiental S.A. (“Estre”), incorporated Attend Ambiental S.A., for constructing and operating a pretreatment of non-domestic effluent station, sludge transportation and related services in the city of São Paulo as well as implement similar structures in other areas in Brazil and abroad.

In 2019, the investee received a capital contribution in the amount of R\$ 24,277, through the issuance of 24,277,245 new registered common shares with no par value, through the conversion of the total credits held by the shareholders against the Company, resulting from Loan Agreements.

As of December 31, 2019, the capital totaled R\$ 37,677, and was represented by 37,677,245 registered common shares without a par value. SABESP holds a 45% interest and Estre 55%.

The operations initiated in December 2014.

### Aquapolo Ambiental S/A.

As of October 8, 2009, the Company, together with Odebrecht Utilities S/A, formerly Foz do Brasil S.A., incorporated Aquapolo Ambiental S.A., for the purpose of producing, providing and trading reused water for Quattor Química S.A., Quattor Petroquímica S.A., Quattor Participações S.A. and other companies comprising the Petrochemical Complex of Capuava and the metropolitan region of São Paulo.

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As of December 31, 2019, the capital of Aquapolo totaled R\$ 36,412, and was represented by 42,419,045 registered common shares without a par value. SABESP holds 49% of its equity interest.

The Company pledges as guarantee to the loan acquired through the issuance of debentures, 100% of its shares in Aquapolo Ambiental S/A.

The operations initiated in October 2012.

### Paulista Geradora de Energia

As of April 13, 2015, the Company acquired shares from Empresa Paulista Geradora de Energia S/A - PGE, jointly with Servtec Investimentos e Participações Ltda ("Servtec") and Tecniplan Engenharia e Comércio Ltda ("Tecniplan"), which operational purpose is the implementation and commercial exploration of water potential in small hydroelectric power plants (PCHs), located at the Guaraú and Vertedouro Cascata Water Treatment Stations.

As of December 31, 2019, the capital of Paulista Geradora de Energia was R\$ 8,679, represented by 8,679,040 registered common shares without a par value, in which SABESP holds a 25% interest, Servtec holds 37.5% and Tecniplan 37.5%.

As of December 31, 2019, operations had not initiated yet.

Below is a summary of the investees' financial information and SABESP's equity interest:

Company	Equity			Capital increase	Dividends distributed	Other Comprehensive Income	Profit (loss) for the year			
	2019	2018	2017	2019	2019	2019	2019	(*)	2018	2017
Sesamm	45,923	43,547	39,262	-	(2,042)	-	6,485	(2,067)	5,621	2,707
Águas de Andradina (i)	30,065	24,832	19,392	-	(2,038)	-	7,070	201	2,407	4,471
Águas de Castilho	7,242	6,084	4,880	-	(609)	-	1,648	119	1,001	933
Saneaqua Mairinque	4,783	5,720	4,327	-	(11)	(55)	(867)	(4)	(790)	390
Attend Ambiental	7,486	1,426	5,169	24,277	-	-	(17,781)	(436)	(3,743)	1,324
Aquapolo Ambiental	37,772	30,170	18,757	-	(8,681)	-	16,283	-	11,413	6,470
Paulista Geradora de Energia	7,144	7,625	8,447	-	-	-	(481)	-	(822)	(22)

# Companhia de Saneamento Básico do Estado de São Paulo - SABESP

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Company	Investments		Capital increase	Dividends distributed	Other Comprehensive Income	Equity in the earnings of subsidiaries				Interest percentage		
	2019	2018	2019	2019	2019	2019	(*)	2018	2017	2019	2018	2017
	Sesamm	16,533	15,677	-	(735)	-	2,335	(744)	2,023	975	36%	36%
Águas de Andradina	9,020	7,450	-	(611)	-	2,121	60	722	729	30%	30%	30%
Águas de Castilho	2,172	1,826	-	(183)	-	493	36	300	287	30%	30%	30%
Saneaqua Mairinque	1,434	1,716	-	(3)	(17)	(260)	(2)	(237)	71	30%	30%	30%
Attend Ambiental	3,369	642	10,925	-	-	(8,002)	(196)	(1,684)	560	45%	45%	45%
Aquapolo Ambiental	18,508	14,783	-	(4,254)	-	7,979	-	5,592	3,144	49%	49%	49%
Paulista Geradora de Energia	1,786	1,905	-	-	-	(119)	-	(206)	(6)	25%	25%	25%
Total	52,822	43,999	10,925	(5,786)	(17)	4,547	(846)	6,510	5,760			
Other investments	365	588										
Overall total	53,187	44,587										

(\*) Refer to changes in the equity of investees, as their financial statements for the year ended December 31, 2018 were issued, including some adjustments, after the Company's financial statements.

## 12 Investment properties

	December 31, 2018	Transfers	Depreciation	December 31, 2019
Investment properties	47,620	(9)	(49)	47,562

	December 31, 2017	Write-offs and disposals	Transfers	Depreciation	December 31, 2018
Investment properties	57,652	(9,995)	13	(50)	47,620

	December 31, 2016	Write-offs and disposals	Depreciation	December 31, 2017
Investment properties	57,968	(244)	(72)	57,652

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As of December 31, 2019 and 2018, the market value of these properties is approximately R\$386,000.

### 13 Contract assets

Contract assets (works in progress) is the right to consideration in exchange for goods or services transferred to customers. As established by IFRS 15 - Revenue from contract with customers, assets related to the concession under construction, recorded under the scope of IFRIC 12 – Service Concession Arrangements, should be classified as Contract Assets during the construction period and transferred to Intangible Assets only after the completion of the works.

A contract assets is initially recognized at fair value and includes borrowing costs capitalized during the period when the asset is under construction, based on the weighted average rate of borrowings in effect on the capitalization date, as described in Note 14.

As of December 31, 2019, the amount recorded as contract assets was R\$ 7,618 million, and the largest works are located in the municipalities of São Paulo, Praia Grande and São Bernardo do Campo, in the amounts of R\$ 3,593 million, R\$ 338 million and R\$ 330 million, respectively. Additionally, R\$ 3,328 million was transferred to intangible assets (under book value); the most significant work is the expansion of the Barueri Sewage Treatment Station, while the largest additions of the period are located in the municipalities of São Paulo, Praia Grande and São Bernardo do Campo, in the amounts of R\$ 1,790 million, R\$ 212 million and R\$ 151 million, respectively.

	<u>December 31, 2018</u>	<u>Additions</u>	<u>Write-offs</u>	<u>Transfers</u>	<u>Transfers of works to intangible assets</u>	<u>December 31, 2019</u>
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Total contract assets (*)	7,407,948	3,532,283	(4,910)	10,710	(3,328,317)	7,617,714
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(\*) As of December 31, 2019, contract assets includes leases recognized before December 31, 2018 in accordance with IAS 17 amounting to R\$ 276,893 (R\$ 265,671 as of December 31, 2018).

	<u>January 1, 2018</u>	<u>Additions</u>	<u>Transfers of works to intangible assets</u>	<u>December 31, 2018</u>
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Total contract assets	10,387,715	3,188,943	(6,168,710)	7,407,948
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# Companhia de Saneamento Básico do Estado de São Paulo - SABESP

## Notes to the Financial Statements

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### 14 Intangible assets

#### (a) Statement of financial position details

	December 31, 2019			December 31, 2018		
	Cost	Accumulated amortization	Net	Cost	Accumulated amortization	Net
Intangible right arising from:						
Concession agreements – equity value	2,066,459	(571,606)	1,494,853	5,465,206	(1,391,862)	4,073,344
Concession agreements – economic value	1,334,531	(621,679)	712,852	1,948,255	(716,246)	1,232,009
Program contracts	19,413,768	(5,594,068)	13,819,700	12,710,937	(3,933,008)	8,777,929
Program contracts – commitments	1,651,434	(286,559)	1,364,875	1,320,106	(240,555)	1,079,551
Services contracts – São Paulo	19,217,091	(4,826,328)	14,390,763	17,474,797	(4,083,345)	13,391,452
Software license of use	829,739	(358,033)	471,706	748,962	(290,787)	458,175
Right of use	113,233	(42,535)	70,698	-	-	-
Total	44,626,255	(12,300,808)	32,325,447	39,668,263	(10,655,803)	29,012,460

#### (b) Changes

	December 31, 2018	First-time adoption of IFRS 16	Addition	Contract renewal	Transfer to indemnities receivable	Transfer of contract assets	Transfers	Write-offs and disposals	Amortization	December 31, 2019*
Intangible right arising from:										
Concession agreements – equity value (*)	4,073,344	-	2	(2,690,660)	(4,345)	131,809	76,804	(8,311)	(83,790)	1,494,853
Concession agreements – economic value	1,232,009	-	2,034	(532,173)	-	89,041	1,956	(569)	(79,446)	712,852
Program contracts (*)	8,777,929	-	1,338,443	3,223,773	-	970,534	137,283	(10,312)	(617,950)	13,819,700
Program contracts – commitments	1,079,551	-	331,328	-	-	-	-	-	(46,004)	1,364,875
Services contracts – São Paulo	13,391,452	-	3,867	(940)	-	2,054,940	(228,583)	(20,739)	(809,234)	14,390,763
Software license of use	458,175	-	-	-	-	81,993	(991)	-	(67,471)	471,706
Right of use - Other assets	-	64,955	48,278	-	-	-	-	-	(42,535)	70,698
Intangible right arising from:	29,012,460	64,955	1,723,952	-	(4,345)	3,328,317	(13,531)	(39,931)	(1,746,430)	32,325,447

(\*)As of December 31, 2019, intangible assets includes leases recognized before December 31, 2018 in accordance with IAS 17 amounting to R\$ 292,824 - (R\$ 315,717 as of December 31, 2018 – R\$ R\$ 98,077 recognized as concession agreements – equity value and R\$ 217,640 recognized as program contracts).

# Companhia de Saneamento Básico do Estado de São Paulo - SABESP

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	December 31, 2017	Transfers to contract assets (*)	Additions	Contract renewal	Transfers of works (**)	Transfers	Write-offs and disposals	Amortization	December 31, 2018
Intangible right arising from:									
Concession agreements – equity value	7,141,614	(1,427,046)	93	(1,935,780)	499,002	(5,268)	(1,406)	(197,865)	4,073,344
Concession agreements – economic value	1,433,937	(233,361)	373	-	114,442	88	(1,031)	(82,439)	1,232,009
Program contracts	7,595,066	(2,019,461)	928,818	1,935,780	681,742	3,011	(7,616)	(339,411)	8,777,929
Program contracts – commitments	910,375	-	206,946	-	-	-	-	(37,770)	1,079,551
Services contracts – São Paulo	15,917,015	(6,707,847)	3,724	-	4,818,734	12	(14,813)	(625,373)	13,391,452
Software license of use	468,125	-	4,774	-	54,790	686	-	(70,200)	458,175
<b>Total</b>	<b>33,466,132</b>	<b>(10,387,715)</b>	<b>1,144,728</b>	<b>-</b>	<b>6,168,710</b>	<b>(1,471)</b>	<b>(24,866)</b>	<b>(1,353,058)</b>	<b>29,012,460</b>

(\*) Work in progress transferred to contract assets due to adoption of IFRS 15, as of January 1, 2018, as described in Note 4.1.

(\*\*) Work in progress transferred from contract assets to intangible assets.

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	December 31, 2016	Additions	Contract renewal	Reversal of estimated losses	Transfers	Write-offs and disposals	Amortization	December 31, 2017
Intangible right arising from:								
Concession agreements – equity value	7,482,955	374,775	(531,818)	2,078	1,663	(2,795)	(185,244)	7,141,614
Concession agreements – economic value	1,381,652	142,429	-	8	2,604	(1,163)	(91,593)	1,433,937
Program contracts	6,576,021	772,278	531,818	4,834	(1,784)	(6,606)	(281,495)	7,595,066
Program contracts – commitments	823,216	121,313	-	-	-	-	(34,154)	910,375
Services contracts – São Paulo	14,552,707	1,976,079	-	6,460	(18,346)	(13,848)	(586,037)	15,917,015
Software license of use	430,237	103,424	-	-	6,489	-	(72,025)	468,125
<b>Total</b>	<b>31,246,788</b>	<b>3,490,298</b>	<b>-</b>	<b>13,380</b>	<b>(9,374)</b>	<b>(24,412)</b>	<b>(1,250,548)</b>	<b>33,466,132</b>

In 2019, the Company renewed the program contract with the municipalities of Águas de São Pedro, Alambari, Bertioga, Caraguatatuba, Espírito Santo do Turvo, Guarujá, Itanhaém, Lavrinhas, Mongaguá, Nazaré Paulista, Oriente, Paraguaçu Paulista, Pedra Bela, Peruíbe, São Bernardo do Campo, São Sebastião e Vargem. The Company also started operations in the municipality of Santo André.

All of these contracts are valid for 30 years, except for the contracts signed with São Bernardo do Campo and Santo André, which are valid for 40 years.

In October 2019, the Company signed a contract with the municipality of Tapiratiba, to begin operating in April 2020.

### (c) Intangible arising from concession agreements

The Company operates public utility service concession agreements for water supply and sewage services mostly based on agreements that set out rights and obligations relative to the exploration of assets related to the public utility service (See Note 3.8 (a)). A general obligation also exists to return the concession infrastructure to the concession grantor in good working condition at the end of the concession.

As of December 31, 2019, the Company operated in 372 municipalities in the State of São Paulo (369 as of December 31, 2018). Most of these contracts have a 30-year concession period.

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The services provided by the Company are billed at a price regulated and controlled by São Paulo State Sanitation and Energy Regulatory Agency (ARSESP).

Intangible rights arising from concession agreements include:

- (i) Concession agreements – equity value

These refer to municipalities assumed until 2006, except for the municipalities assumed by economic value through assets valuation report prepared by independent experts. The amortization of assets is calculated according to the straight-line method, which considers the assets useful life.

- (ii) Concession agreements – economic value

From 1999 through 2006, the negotiations for new concessions were conducted on the basis of the economic and financial result of the transaction, determined in a valuation report issued by independent appraisers.

The amount determined in the related contract, after the transaction is closed with the municipal authorities, realized through the subscription of the Company's shares or in cash, is recorded as "concession agreements" and amortized over the period of the related concession (usually 30 years). As of December 31, 2019 and 2018 there were no amounts pending related to these payments to the municipalities.

Intangible assets are amortized on a straight-line basis over the period of the concession agreements or for the useful lives of the underlying assets, whichever is shorter.

- (iii) Program contracts

These refer to the renewal of contracts previously referred to as concession agreements whose purpose is to provide sanitation services. The amortization of the assets acquired until the dates of signatures of the program contracts is calculated according to the straight-line method, which considers the assets' useful lives. Assets acquired or built after the signature dates of program contracts are amortized during the contracted period (mostly, 30 years) or during the useful lives of underlying assets, whichever is shorter.

- (iv) Program contracts - Commitments

After the enactment of the regulatory framework in 2007, renewals of concessions started to be made through of program contracts. In some of these program contracts, the Company undertook the commitment to financially participate in social and environmental actions. The assets built within the program contracts are recorded as intangible assets and are amortized by the straight-line method in accordance with the duration of the program contract (mostly, 30 years).



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As of December 31, 2019 and 2018, the amounts not yet disbursed were recorded under “program contract commitments”, in current liabilities, totaling R\$ 273,932 and R\$ 230,695, respectively, and in noncurrent liabilities, totaling R\$ 103,321 and R\$ 142,314, respectively. In 2019, the annual rate of 8.11% (WACC) was applied to calculate the present value adjustment of these contracts.

(v) **Services agreement with the Municipality of São Paulo**

On June 23, 2010, the Company entered into an agreement with the State of São Paulo and the Municipality of São Paulo to regulate the provision of water and sewage services in the municipality of São Paulo for a 30-year period, which is extendable for an another 30-year period.

Also on June 23, 2010, an agreement was signed between the state and municipal government, and SABESP and the Sanitation and Energy Regulatory Agency of the State of São Paulo (“ARSESP”) are the consenting and intervening parties, whose main aspects are the following:

1. The State and the Municipality of São Paulo grant to SABESP the right to explore the sanitation services in the capital of the State of São Paulo, which consists of the obligation to provide such service and charge the respective tariff for this service;
2. The State and the Municipality sets forth ARSESP as the agency responsible for regulating the tariff, controlling and monitoring the services.
3. The evaluation model of the contract was the discounted cash flow, which considered the financial and economic sustainability of SABESP's operations in the metropolitan region of São Paulo;
4. All operating costs, taxes, investments and the opportunity cost of investors and the creditors of SABESP's were considered in the cash flow analysis;
5. The agreement provides for investments established in the agreement comply with the minimum of 13% of the gross revenue from the municipality of São Paulo, net of the taxes on revenues. Investment plans referring to SABESP's execution shall be compatible with the activities and programs foreseen in the state, municipal sanitation plans, and where applicable, the metropolitan plan. The investment plan is not definite and will be revised by Managing Committee every four years, especially as to investments to be made in the following period;

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6. The payment related to the Municipal Fund of Environmental Sanitation and Infrastructure to be applied in the sanitation service within the municipality must be recovered through the tariffs charges. Such payment represents 7.5% of the total revenue from the municipality of São Paulo, net of the taxes on revenue and delinquency in the period, recognized in profit or loss, as operating cost;

7. The opportunity cost of the investors and the creditors was established by the Weighted Average Cost of Capital (WACC) methodology. The WACC was the interest rate used to discount the cash flow of the operation; and

8. The agreement considers the recovery of net assets in operation, preferably evaluated through equity valuation or carrying amount monetarily restated, as defined by ARSESP. In addition, the agreement provides for the remuneration of investments to be made by SABESP, so that there is no residual value at the end of the agreement.

Referring to the recovery through tariff, mentioned in item 6 above, of transfer to the Municipal Fund of Environmental Sanitation and Infrastructure, ARSESP issued in April 2013, the Resolution no. 413, postponing the application of Resolution no. 407 until the conclusion of the tariff revision process, the transfer to the bill of services of amounts referring to the municipal charges which were stipulated in Resolution no. 407. The postponement to apply Resolution no. 407 was due to a request by the São Paulo State Government to analyze, among other things, methods to reduce the impact on consumers.

As of April 18, 2014, ARSESP Resolution no. 484 was published with the final results of SABESP's Tariff Revision, however, both the São Paulo Municipal Government, through Official Letter no. 1,309/2014-SGM/GAB and the São Paulo State Government through a petition filed by the São Paulo State Office, through the Official Letter ATG/Official Letter no. 092/2014-CC, requested a postponement of the effects of ARSESP Resolution no. 413, published in the São Paulo State Official Gazette on March 20, 2013, until the conclusion of the revision of the Agreement entered into between the São Paulo Municipal Government, the São Paulo State Government and SABESP.

By means of Resolution no. 488 of May 7, 2014, ARSESP maintained the suspension of the effectiveness of ARSESP Resolution no. 407, published on March 22, 2013, until the results obtained in the revision of the Agreement entered into by the São Paulo Municipal Government, the São Paulo State Government and SABESP postponing authorization for the transfer to the bill of the services related to the legally established municipal fees that, by force of the Program Agreements and Water Supply and Sewage Services Agreements, should be included in the Tariff Revision.

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The agreement represents 44.48% of the total revenue of the Company as of December 31, 2019, and ensures the judicial and assets security.

The municipality of São Paulo and the Company did not conclude an agreement to equalize financial pending issues existing until the signature date of the Agreement related to the rendering of water supply and sewage services to the real properties of the municipality, and for that reason, the Company filed a suit to collect these accounts, which are accrued for losses.

### **(d) Capitalization of interest and other finance charges**

In 2019, the Company capitalized interest and inflation adjustment, including related foreign currency exchange effects in concession intangible assets, totaling R\$233,251, including the São Lourenço Production System and Leases (R\$488,502 in 2018 and R\$649,048 in 2017) during the construction period.

### **(e) Construction margin**

The Company acts as a principal responsible to construct and install the infrastructure related to the concession, using own efforts or hiring outsourcing services, receiving the risks and benefits.

Accordingly, the Company recognizes revenue from construction service corresponding to the cost of construction increased by gross margin. Generally, the constructions related to the concessions are performed by third parties, in such case, the margin of the Company is lower, normally, to cover eventual administration costs, and the responsibility of the primary risk. In 2019 and 2018 the margin was 2.3%.

Construction margin for 2019, 2018 and 2017 were R\$65,172, R\$63,013 and R\$70,335, respectively.

### **(f) Expropriations**

As a result of the construction of priority projects related to water and sewage systems, the Company was required to expropriate third-parties' properties, and the owners of these properties will be compensated either amicably or through courts.

The costs of these expropriations are recorded as concession intangible assets after the transaction is concluded. In 2019, the total amount related to expropriations was R\$34,681 (R\$106,429 in 2018 and R\$19,576 in 2017).

### **(g) Public-Private Partnership - PPP**

SABESP carries out operations related to the PPPs mentioned below. These operations and their respective obligations and guarantees are supported by agreements executed according to Law 11,079/2004.

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### Alto Tietê Production System

The Company and the special purpose entity CAB-Sistema Produtor Alto Tietê S/A, formed by Galvão Engenharia S.A. and Companhia Águas do Brasil – Cab Ambiental, signed in June 2008 the contract of public-private- partnership of Alto Tietê production system.

The contract last 15 years which purpose is to expand the capacity of treated water of Taiaçupeba from 10 thousand to 15 thousand of liters per second, whose operation began in October 2011.

As of December 31, 2019 and 2018, the amounts recognized as intangible asset related to PPP were R\$348,586 and R\$359,759, respectively. In 2019 and 2018, a discount rate of 8.20% p.a. was used to calculate the adjustment to present value of the agreement.

On a monthly basis, SABESP assigns funds from tariffs to the SPE CAB Sistema Produtor Alto Tietê S/A, in the amount of R\$10,361, corresponding to the monthly remuneration. This amount is annually adjusted by the IPC – FIPE and is recorded in a restricted account, pursuant to the contractual operating proceeding.

The guarantee is effective since the beginning of the operation and will be valid until the conclusion, termination, intervention, annulment or caducity of the Administrative Concession, or other extinction events provided for in the Concession Agreement or in the law applicable to administrative concessions, including in the event of bankruptcy or extinction of the SPE.

### São Lourenço Production System

In August 2013, SABESP and the special purpose entity Sistema Produtor São Lourenço S/A, composed of Construções e Comércio Camargo Corrêa S/A and Construtora Andrade Gutierrez S/A, signed the public-private partnership agreements of the São Lourenço Production System.

In May 2018, the control of SPE Sistema Produtor São Lourenço S/A was transferred to CGGC Construtora do Brasil Ltda, previously composed of Construções e Comércio Camargo Corrêa S/A and Construtora Andrade Gutierrez S/A.

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The objective of the contract is: a) the construction of a water producing system, mainly consisting of a water pipeline connecting Ibiúna to Barueri, a water collection station in Ibiúna, a water treatment station in Vargem Grande Paulista and water reservoirs; and b) the provision of services for a 25-year term, aiming at rendering services to operate the dehydration system, drying and final disposal of sludge, maintenance and works of the São Lourenço Production System. Works started in April 2014.

The São Lourenço Production System (SPSL) PPP started operating on July 10, 2018.

The estimated amount by inflation adjustment through December 31, 2019 is approximately R\$7.73 billion.

After the beginning of the operations, every month SABESP will transfer to the SPE Sistema Produtor São Lourenço S/A funds from tariffs arising from the services provided, in the amount of R\$33.0 million, equivalent to the estimated monthly remuneration plus interest and charges. The amount above will be annually reevaluated by the IPC - FIPE and should be monthly recorded in a restricted account, in accordance with the operating procedures of the agreements.

This obligation with the SPE will become effective as of the beginning of the system's appropriate operation, duly accepted by SABESP, valid until the occurrence of any of the following events, whichever occurs first: (i) the original payment date of the last installment of interest / amortization of the principal taken out by the SPE to execute the works; (ii) the end, termination, intervention, annulment, caducity of the Administrative Concession, or other extinction events provided for in the Concession Agreement or in the law applicable to administrative concessions, including bankruptcy or extinction of the SPE.

As of December 31, 2019 and 2018, the carrying amounts recorded in the Company's intangible assets, related to this PPP, amounted to R\$3,235,008 and R\$3,208,464, respectively. Intangible assets are accrued for based on the physical evolution of the construction, with a counter-entry in the Private Public Partnership (PPP) liabilities account. In 2019, a discount rate of 7.80% p.a. was used to calculate the adjustment to present value of the agreement.

The São Lourenço Production System had its main works completed in the first quarter of 2019 with the end of the works phase (phase 1) occurred on November 1, 2019, after checking compliance with the contractual clauses and the absence of documentary pending issues.

The obligations assumed by the Company as of December 31, 2019 and 2018 are shown in the table below:

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	December 31, 2019			December 31, 2018		
	Current liabilities	Noncurrent liabilities	Total liabilities	Current liabilities	Noncurrent liabilities	Total liabilities
Alto Tietê	44,003	208,217	252,220	39,283	252,093	291,376
São Lourenço	66,288	2,975,472	3,041,760	98,544	3,023,204	3,121,748
Total	110,291	3,183,689	3,293,980	137,827	3,275,297	3,413,124

### (h) Works in progress

With the adoption of IFRS 15 - Revenue from contract with customers, as of January 1, 2018, assets related to the concession under construction, recorded under the scope of IFRIC 12 – Service Concession Arrangements, previously recognized as part of intangible assets as works in progress were reclassified to contract assets, according to note 13, in the amount of R\$ 10,387 million.

### (i) Amortization of intangible assets

The amortization average rate totaled 4.2% as of December 31, 2019 (4.2% and 3.9% as of December 31, 2018 and 2017, respectively).

### (j) Software license of use

The software license of use is capitalized based on the costs incurred to acquire software and make them ready for use. As of April 10, 2017, the Company implemented the Integrated Business Management System (Enterprise Resource Planning – SAP ERP), which includes the administrative/financial module. The implementation of the commercial module is in progress.

### (k) Right of use

The statement of financial position account Right of Use, created by the Company on January 1, 2019, reflects the amendment introduced by IFRS 16, which requires lessees to record the right-of-use asset and the lease liability. The Company has utilized the exemption in adoption of IFRS 16 related to leases with a lease term of 12 months or less and containing no purchase options and leases where the underlying asset has a low value when new. For those leases accounted for under the exemption option, the Company recognized R\$40,577, R\$9,132 and R\$2,146 in its results, allocated to operating costs, selling expenses and administrative expenses, respectively in 2019.

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## Notes to the Financial Statements

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Details of right of use asset are as follows:

Nature	December 31, 2019
<b>Leases related to Contract Assets</b>	<b>276,893</b>
<b>Leases related to Concession Agreements and Program Contracts</b>	<b>292,824</b>
- Cost	405,426
- Accumulated amortization	(112,602)
<b>Other assets</b>	<b>70,698</b>
- Vehicles	91,709
- Properties	13,309
- Equipment	3,801
- Other	4,414
- Accumulated amortization	(42,535)
<b>Right of use</b>	<b>640,415</b>

Lease liability corresponds to total future fixed lease payments, adjusted to present value, considering an incremental rate on borrowings. For further information, see Note 16.

The table below shows the impact in the income statements as of December 31, 2019:

Impact in the income statement	December 31, 2019
Right-of-use amortization	(65,413)
Financial result – interest expenses	(54,791)
Short-term and low-value lease expenses	(51,855)
<b>Decrease of the income of the year</b>	<b>(172,059)</b>

# Companhia de Saneamento Básico do Estado de São Paulo - SABESP

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### 15 Property, plant and equipment

#### (a) Statement of financial position details

	December 31, 2019				December 31, 2018			
	Cost	Accumulated depreciation	Net	Depreciation average rate	Cost	Accumulated depreciation	Net	Depreciation average rate
Land	92,962	-	92,962	-	92,979	-	92,979	-
Buildings	82,143	(40,438)	41,705	2.1%	79,086	(38,961)	40,125	3.0%
Equipment	402,850	(250,577)	152,273	16.3%	372,872	(256,786)	116,086	16.5%
Transportation equipment	8,946	(6,962)	1,984	9.9%	11,333	(7,860)	3,473	10.0%
Furniture and fixtures	31,365	(13,146)	18,219	6.7%	27,250	(13,672)	13,578	6.8%
Other	7,559	(309)	7,250	5.0%	1,659	(288)	1,371	6.2%
<b>Total</b>	<b>625,825</b>	<b>(311,432)</b>	<b>314,393</b>	<b>12.5%</b>	<b>585,179</b>	<b>(317,567)</b>	<b>267,612</b>	<b>12.3%</b>

#### (b) Changes

	December 31, 2018	Additions	Transfers	Write-offs and disposals	Depreciation	December 31, 2019
Land	92,979	-	(17)	-	-	92,962
Buildings	40,125	3,497	15	-	(1,932)	41,705
Equipment	116,086	63,216	3,149	(429)	(29,749)	152,273
Transportation equipment	3,473	308	(1,117)	(2)	(678)	1,984
Furniture and fixtures	13,578	5,266	734	(162)	(1,197)	18,219
Other	1,371	5,872	66	-	(59)	7,250
<b>Total</b>	<b>267,612</b>	<b>78,159</b>	<b>2,830</b>	<b>(593)</b>	<b>(33,615)</b>	<b>314,393</b>



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	December 31, 2017	Additions	Transfers	Write-offs and disposals	Depreciation	December 31, 2018
Land	92,507	-	472	-	-	92,979
Buildings	42,360	73	-	-	(2,308)	40,125
Equipment	103,803	46,473	986	(81)	(35,095)	116,086
Transportation equipment	3,680	589	-	-	(796)	3,473
Furniture and fixtures	11,816	2,972	-	(27)	(1,183)	13,578
Other	884	538	-	-	(51)	1,371
<b>Total</b>	<b>255,050</b>	<b>50,645</b>	<b>1,458</b>	<b>(108)</b>	<b>(39,433)</b>	<b>267,612</b>

	December 31, 2016	Additions	Transfers	Write-offs and disposals	Depreciation	December 31, 2017
Land	92,494	-	13	-	-	92,507
Buildings	43,262	86	1,358	-	(2,346)	42,360
Equipment	149,140	17,627	(15,945)	(178)	(46,841)	103,803
Transportation equipment	4,531	-	(33)	(27)	(791)	3,680
Furniture and fixtures	11,986	1,207	(75)	(54)	(1,248)	11,816
Other	970	-	(15)	(20)	(51)	884
<b>Total</b>	<b>302,383</b>	<b>18,920</b>	<b>(14,697)</b>	<b>(279)</b>	<b>(51,277)</b>	<b>255,050</b>

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## Notes to the Financial Statements Years ended December 31, 2019, 2018 and 2017 Amounts in thousands of reais, unless otherwise indicated

### 16 Borrowings and financing

Borrowings and financing outstanding balance	December 31, 2019			December 31, 2018		
	Current	Noncurrent	Total	Current	Noncurrent	Total
<b>Financial institution</b>						
<b>Local currency</b>						
10th issue debentures	41,021	-	41,021	42,493	40,194	82,687
12th issue debentures	45,450	203,829	249,279	45,450	249,249	294,699
14th issue debentures	41,940	63,012	104,952	41,270	103,005	144,275
15th issue debentures	-	-	-	359,394	-	359,394
17th issue debentures	289,211	263,226	552,437	279,100	532,691	811,791
18th issue debentures	34,239	133,679	167,918	33,469	165,267	198,736
20th issue debentures	-	-	-	248,334	-	248,334
21th issue debentures	150,000	349,660	499,660	-	499,604	499,604
22th issue debentures	-	765,689	765,689	-	756,040	756,040
23th issue debentures	-	864,603	864,603	-	-	-
24th issue debentures	-	395,855	395,855	-	-	-
Brazilian Federal Savings Bank	83,519	1,341,660	1,425,179	75,223	1,266,592	1,341,815
Brazilian Development Bank - BNDES BAIXADA SANTISTA	-	-	-	16,899	-	16,899
Brazilian Development Bank - BNDES PAC	11,184	27,854	39,038	11,227	39,169	50,396
Brazilian Development Bank - BNDES PAC II 9751	6,990	40,685	47,675	4,364	18,811	23,175
Brazilian Development Bank - BNDES PAC II 9752	3,913	24,457	28,370	3,186	23,100	26,286
Brazilian Development Bank - BNDES ONDA LIMPA	23,704	100,582	124,286	23,632	123,875	147,507
Brazilian Development Bank - BNDES TIETÊ III	52,874	383,191	436,065	30,589	252,197	282,786
Brazilian Development Bank - BNDES 2015	31,712	460,646	492,358	31,615	490,729	522,344
Brazilian Development Bank - BNDES 2014	4,659	25,411	30,070	-	-	-
Leases (Concession Agreements, Program Contracts and Contract Assets)	27,314	432,357	459,671	19,077	549,589	568,666
Leases (Others)	51,088	23,365	74,453	-	-	-
Other	1,665	8,207	9,872	1,380	8,163	9,543
Interest and charges	77,460	-	77,460	98,410	-	98,410
<b>Total in local currency</b>	<b>977,943</b>	<b>5,907,968</b>	<b>6,885,911</b>	<b>1,365,112</b>	<b>5,118,275</b>	<b>6,483,387</b>
<b>Borrowings and financing outstanding balance</b>						
<b>Financial institution</b>						
<b>Foreign currency</b>						
Inter-American Development Bank - BID 1212 – US\$61,668 thousand (US\$71,947 thousand in December 2018)	41,428	207,140	248,568	39,826	238,954	278,780
Inter-American Development Bank - BID 2202 – US\$510,573 thousand (US\$544,457 thousand in December 2018)	128,623	1,914,298	2,042,921	124,098	1,969,565	2,093,663
International Bank of Reconstruction and Development - BIRD – US\$88,871 thousand (US\$91,286 thousand in December 2018)	24,505	330,898	355,403	11,779	341,646	353,425
Deutsche Bank – (US\$75,000 thousand in December 2018)	-	-	-	288,479	-	288,479
Eurobonds – US\$350,000 thousand (US\$350,000 thousand in December 2018)	1,409,921	-	1,409,921	-	1,354,532	1,354,532
JICA 15 – ¥11,524,300 thousand (¥12,676,730 thousand in December 2018)	42,813	385,315	428,128	40,646	406,462	447,108
JICA 18 – ¥10,361,600 thousand (¥11,397,760 thousand in December 2018)	38,493	346,237	384,730	36,545	365,230	401,775
JICA 17 – ¥2,830,420 thousand (¥1,826,957 thousand in December 2018)	12,466	91,845	104,311	11,835	51,786	63,621
JICA 19 – ¥31,736,565 thousand (¥31,561,726 thousand in December 2018)	67,372	1,109,644	1,177,016	64,028	1,047,081	1,111,109
BID 1983AB – US\$40,769 thousand (US\$58,462 thousand in December 2018)	71,312	91,521	162,833	68,554	155,653	224,207
Interest and charges	44,967	-	44,967	52,710	-	52,710
<b>Total in foreign currency</b>	<b>1,881,900</b>	<b>4,476,898</b>	<b>6,358,798</b>	<b>738,500</b>	<b>5,930,909</b>	<b>6,669,409</b>
<b>Total borrowings and financing</b>	<b>2,859,843</b>	<b>10,384,866</b>	<b>13,244,709</b>	<b>2,103,612</b>	<b>11,049,184</b>	<b>13,152,796</b>

Exchange rate as of December 31, 2019: US\$4.0307; ¥0.03715 (as of December 31, 2018: US\$3.8748; ¥0.03527).

As of December 31, 2019, the Company did not have balances of borrowings and financing, raised during the year, to mature within 12 months.

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<u>Local currency</u>	<u>Guarantees</u>	<u>Maturity</u>	<u>Annual interest rates</u>	<u>Inflation adjustment</u>
10th issue debentures	Own funds	2020	TJLP +1.92% (Series 1 and 3) and 9.53% (Series 2)	IPCA (Series 2)
12th issue debentures	Own funds	2025	TR + 9.5%	
14th issue debentures	Own funds	2022	TJLP +1.92% (Series 1 and 3) and 9.19% (Series 2)	IPCA (Series 2)
17th issue debentures	Own funds	2023	CDI +0.75 (Series 1) and 4.5% (Series 2) and 4.75% (Series 3)	IPCA (Series 2 and 3)
18th issue debentures	Own funds	2024	TJLP 1.92 % (Series 1 and 3) and 8.25% (Series 2)	IPCA (Series 2)
21th issue debentures	Own funds	2022	CDI + 0.60% e CDI+ 0.90%	
22th issue debentures	Own funds	2025	CDI +0.58 (Series 1) and CDI + 0.90% (Series 2) and 6.0% (Series 3)	IPCA (Series 3)
23th issue debentures	Own funds	2027	CDI +0.63 (Series 1) and CDI + 0.49% (Series 2)	
24th issue debentures	Own funds	2029	3.20 (Series 1) and 3.37% (Series 2)	IPCA (Series 1 and 2)
Brazilian Federal Savings Bank	Own funds	2020/2039	5% to 9.5%	TR
Brazilian Development Bank - BNDES PAC	Own funds	2023	TJLP+2.15%	
Brazilian Development Bank - BNDES PAC II 9751	Own funds	2027	TJLP+1.72%	
Brazilian Development Bank - BNDES PAC II 9752	Own funds	2027	TJLP+1.72%	
Brazilian Development Bank - BNDES ONDA LIMPA	Own funds	2025	TJLP+1.92%	
Brazilian Development Bank - BNDES TIETÊ III	Own funds	2028	TJLP+1.66%	
Brazilian Development Bank - BNDES 2015	Own funds	2035	TJLP+2.5%	
Brazilian Development Bank - BNDES 2014	Own funds	2026	TJLP+1.76%	
Leases (Concession Agreements, Program Contracts and Contract Assets)		2035	7.73% to 10.12%	IPC
Leases (Others)		2023	6.01% to 9.84%	
Other	Own funds	2025	3% (FEHIDRO) and TJLP + 1.5% (FINEP)	

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<u>Foreign currency</u>	<u>Guarantees</u>	<u>Maturity</u>	<u>Annual interest rates</u>	<u>Exchange rate changes</u>
Inter-American Development Bank - BID 1212 - US\$61,668 thousand	Government	2025	3.31% (*)	US\$
Inter-American Development Bank - BID 2202 - US\$510,573 thousand	Government	2035	3.42% (*)	US\$
International Bank for Reconstruction and Development - BIRD US\$88,871 thousand	Government	2034	2.85% (*)	US\$
Eurobonds – US\$350,000 thousand	-	2020	6.25%	US\$
JICA 15 – ¥11,524,300 thousand	Government	2029	1.8% and 2.5%	Yen
JICA 18 – ¥10,361,600 thousand	Government	2029	1.8% and 2.5%	Yen
JICA 17– ¥2,830,420 thousand	Government	2035	1.2% and 0.01%	Yen
JICA 19– ¥31,736,565 thousand	Government	2037	1.7% and 0.01%	Yen
BID 1983AB – US\$40,769 thousand	-	2023	2.08% to 2.38% (*)	US\$

(\*)Rates comprising LIBOR + contractually defined spread.

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### (i) Payment schedule as of December 31, 2019

	2020	2021	2022	2023	2024	2025	2026 to 2040	TOTAL
<b>LOCAL CURRENCY</b>								
Debentures	601,861	484,363	563,291	366,330	700,583	280,062	644,924	3,641,414
Brazilian Federal Savings Bank	83,519	87,951	92,727	85,554	84,289	89,569	901,570	1,425,179
BNDES	135,036	134,584	134,584	128,886	123,400	105,460	435,912	1,197,862
Leases (Concession Agreements, Program Contracts and Contract Assets)	27,314	29,093	31,063	33,711	36,697	39,951	261,842	459,671
Leases (Others)	51,088	22,630	678	57	-	-	-	74,453
Other	1,665	1,865	1,865	1,825	1,384	1,268	-	9,872
Interest and charges	77,460	-	-	-	-	-	-	77,460
<b>TOTAL IN LOCAL CURRENCY</b>	<b>977,943</b>	<b>760,486</b>	<b>824,208</b>	<b>616,363</b>	<b>946,353</b>	<b>516,310</b>	<b>2,244,248</b>	<b>6,885,911</b>
<b>FOREIGN CURRENCY</b>								
BID	170,051	170,051	170,051	170,051	170,051	170,051	1,271,183	2,291,489
BIRD	24,505	24,505	24,505	24,505	24,505	24,505	208,373	355,403
Eurobonds	1,409,921	-	-	-	-	-	-	1,409,921
JICA	161,144	154,857	154,857	154,857	154,857	154,857	1,158,756	2,094,185
BID 1983AB	71,312	31,005	31,005	29,511	-	-	-	162,833
Interest and charges	44,967	-	-	-	-	-	-	44,967
<b>TOTAL IN FOREIGN CURRENCY</b>	<b>1,881,900</b>	<b>380,418</b>	<b>380,418</b>	<b>378,924</b>	<b>349,413</b>	<b>349,413</b>	<b>2,638,312</b>	<b>6,358,798</b>
<b>Overall Total</b>	<b>2,859,843</b>	<b>1,140,904</b>	<b>1,204,626</b>	<b>995,287</b>	<b>1,295,766</b>	<b>865,723</b>	<b>4,882,560</b>	<b>13,244,709</b>

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### (ii) Changes

	December 31, 2018	Addition as per IFRS 16	Funding	Borrowing costs	Monetary variation and exchange rate changes	Inflation adjustment / exchange rate changes - Capitalized	Interest paid	Amortization	Accrued interest	Provision for interest and fees - Capitalized	Amortization of borrowing costs	December 31, 2019
<b>LOCAL CURRENCY</b>												
Debentures	3,486,861	-	1,266,755	(11,814)	42,692	-	(234,307)	(1,055,623)	195,586	17,233	3,845	3,711,228
Brazilian Federal Savings Bank	1,345,684	-	162,767	-	-	-	(109,128)	(79,404)	74,421	34,910	-	1,429,250
BNDES	1,072,605	-	256,981	(628)	2,082	826	(83,419)	(131,026)	60,644	23,112	234	1,201,411
Leases (Concession Agreements, Program Contracts and Contract Assets)	568,666	-	-	-	1,765	3,761	(47,663)	(123,880)	49,160	7,862	-	459,671
Leases (Others)	-	113,233	-	-	-	-	(1,141)	(42,646)	5,007	-	-	74,453
Other	9,571	-	1,683	-	28	-	(655)	(1,383)	652	2	-	9,898
<b>TOTAL IN LOCAL CURRENCY</b>	<b>6,483,387</b>	<b>113,233</b>	<b>1,688,186</b>	<b>(12,442)</b>	<b>46,567</b>	<b>4,587</b>	<b>(476,313)</b>	<b>(1,433,962)</b>	<b>385,470</b>	<b>83,119</b>	<b>4,079</b>	<b>6,885,911</b>
<b>FOREIGN CURRENCY</b>												
BID	2,399,985	-	-	-	40,594	49,387	(83,602)	(171,892)	26,332	54,431	955	2,316,190
BIRD	356,420	-	2,540	(2,540)	12,575	1,657	(10,627)	(12,273)	8,548	1,561	19	357,880
Deutsche Bank	292,872	-	-	-	13,255	-	(18,562)	(303,866)	12,929	1,240	2,132	-
Eurobonds	1,358,412	-	-	-	54,565	-	(102,883)	-	94,095	8,943	824	1,413,956
JICA	2,036,128	-	117,861	(112)	104,027	3,675	(35,001)	(155,064)	32,194	3,013	187	2,106,908
BID 1983AB	225,592	-	-	(105)	8,943	-	(10,338)	(71,141)	9,111	870	932	163,864
<b>TOTAL IN FOREIGN CURRENCY</b>	<b>6,669,409</b>	<b>-</b>	<b>120,401</b>	<b>(2,757)</b>	<b>233,959</b>	<b>54,719</b>	<b>(261,013)</b>	<b>(714,236)</b>	<b>183,209</b>	<b>70,058</b>	<b>5,049</b>	<b>6,358,798</b>
<b>Overall Total</b>	<b>13,152,796</b>	<b>113,233</b>	<b>1,808,587</b>	<b>(15,199)</b>	<b>280,526</b>	<b>59,306</b>	<b>(737,326)</b>	<b>(2,148,198)</b>	<b>568,679</b>	<b>153,177</b>	<b>9,128</b>	<b>13,244,709</b>

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	December 31, 2017	Funding	Borrowings costs	Monetary variation and exchange rate changes	Inflation adjustment / update incorporated interest - Capitalized	Interest and fees paid	Amortization	Accrued interest	Interest and fees – Capitalized (*)	Borrowings costs - expenses	December 31, 2018
<b>LOCAL CURRENCY</b>											
Debentures	3,576,842	750,000	(3,021)	62,676	-	(259,175)	(905,080)	226,810	34,409	3,400	3,486,861
Brazilian Federal Savings Bank	1,236,674	194,244	-	-	-	(102,772)	(85,515)	75,668	27,385	-	1,345,684
BNDES	1,042,036	131,000	-	3,438	4,001	(90,397)	(102,314)	28,909	55,725	207	1,072,605
Leases	561,616	-	-	-	6,366	(38,196)	(17,427)	40,290	16,017	-	568,666
Other	10,977	-	-	69	-	(772)	(1,470)	763	4	-	9,571
<b>TOTAL IN LOCAL CURRENCY</b>	<b>6,428,145</b>	<b>1,075,244</b>	<b>(3,021)</b>	<b>66,183</b>	<b>10,367</b>	<b>(491,312)</b>	<b>(1,111,806)</b>	<b>372,440</b>	<b>133,540</b>	<b>3,607</b>	<b>6,483,387</b>
<b>FOREIGN CURRENCY</b>											
BID	1,743,257	484,690	(2,365)	237,433	53,208	(55,391)	(130,520)	26,910	41,878	885	2,399,985
BIRD	303,278	-	-	48,279	3,462	(7,607)	-	6,945	2,044	19	356,420
Deutsche Bank	496,726	-	-	62,918	-	(35,207)	(268,508)	28,862	4,454	3,627	292,872
Eurobonds	1,158,642	-	-	198,380	-	(97,952)	-	85,072	13,448	822	1,358,412
JICA	1,700,448	80,196	(191)	329,638	6,787	(33,519)	(82,608)	33,992	1,209	176	2,036,128
BID 1983AB	270,470	-	-	39,241	-	(11,060)	(85,306)	9,681	1,488	1,078	225,592
<b>TOTAL IN FOREIGN CURRENCY</b>	<b>5,672,821</b>	<b>564,886</b>	<b>(2,556)</b>	<b>915,889</b>	<b>63,457</b>	<b>(240,736)</b>	<b>(566,942)</b>	<b>191,462</b>	<b>64,521</b>	<b>6,607</b>	<b>6,669,409</b>
<b>Overall Total</b>	<b>12,100,966</b>	<b>1,640,130</b>	<b>(5,577)</b>	<b>982,072</b>	<b>73,824</b>	<b>(732,048)</b>	<b>(1,678,748)</b>	<b>563,902</b>	<b>198,061</b>	<b>10,214</b>	<b>13,152,796</b>

(\*) amount related to accrued interest which as part of the contract assets.

# Companhia de Saneamento Básico do Estado de São Paulo - SABESP

## Notes to the Financial Statements

Years ended December 31, 2019, 2018 and 2017

Amounts in thousands of reais, unless otherwise indicated

	<u>December 31, 2016</u>	<u>Funding</u>	<u>Borrowings costs</u>	<u>Lease</u>	<u>Monetary variation and exchange rate changes</u>	<u>Inflation adjustment / update incorporated interest - Capitalized</u>	<u>Interest and fees paid</u>	<u>Amortization</u>	<u>Accrued interest</u>	<u>Interest and fees – Capitalized (*)</u>	<u>Borrowings costs - expenses</u>	<u>December 31, 2017</u>
<b>LOCAL CURRENCY</b>												
Debentures	3,641,912	500,000	(1,157)	-	51,768	-	(301,493)	(597,794)	176,780	103,215	3,611	3,576,842
Brazilian Federal Savings Bank	1,150,691	144,654	-	-	5,495	1,415	(95,854)	(65,836)	78,283	17,826	-	1,236,674
BNDES	946,984	171,153	-	-	5,405	2,512	(78,466)	(87,993)	33,938	48,294	209	1,042,036
Leases	552,516	-	-	24,693	-	-	-	(15,593)	-	-	-	561,616
Other	11,677	-	-	-	116	-	(876)	(750)	779	31	-	10,977
<b>TOTAL IN LOCAL CURRENCY</b>	<b>6,303,780</b>	<b>815,807</b>	<b>(1,157)</b>	<b>24,693</b>	<b>62,784</b>	<b>3,927</b>	<b>(476,689)</b>	<b>(767,966)</b>	<b>289,780</b>	<b>169,366</b>	<b>3,820</b>	<b>6,428,145</b>
<b>FOREIGN CURRENCY</b>												
BID	1,811,664	96,889	(2,497)	-	(15,193)	40,228	(38,654)	(189,280)	22,547	16,803	750	1,743,257
BIRD	261,337	35,710	-	-	2,874	2,837	(4,049)	-	3,662	888	19	303,278
Deutsche Bank	485,090	-	(720)	-	7,335	-	(31,774)	-	21,286	11,925	3,584	496,726
Eurobonds	1,141,469	-	-	-	17,115	-	(85,338)	-	55,046	29,529	821	1,158,642
JICA	1,617,215	63,909	(287)	-	82,563	2,525	(28,652)	(65,702)	27,602	1,115	160	1,700,448
BID 1983AB	343,588	-	(82)	-	1,609	-	(10,931)	(75,610)	6,858	3,715	1,323	270,470
<b>TOTAL IN FOREIGN CURRENCY</b>	<b>5,660,363</b>	<b>196,508</b>	<b>(3,586)</b>	<b>-</b>	<b>96,303</b>	<b>45,590</b>	<b>(199,398)</b>	<b>(330,592)</b>	<b>137,001</b>	<b>63,975</b>	<b>6,657</b>	<b>5,672,821</b>
<b>Overall Total</b>	<b>11,964,143</b>	<b>1,012,315</b>	<b>(4,743)</b>	<b>24,693</b>	<b>159,087</b>	<b>49,517</b>	<b>(676,087)</b>	<b>(1,098,558)</b>	<b>426,781</b>	<b>233,341</b>	<b>10,477</b>	<b>12,100,966</b>

(\*) amount related to accrued interest which as part of the contract assets.



# Companhia de Saneamento Básico do Estado de São Paulo - SABESP

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### (a) Debentures

#### (i) Funding

On May 27, 2019, the Company raised funds through the 23<sup>rd</sup> debenture issue, in the amount of R\$ 866,755, as follows:

	Value	Maturity	Remuneration
Series 1	491,755	May/2024	CDI + 0.63 p.a.
Series 2	375,000	May/2027	CDI + 0.49 p.a.

On July 24, 2019, the Company raised funds through the 24<sup>th</sup> debenture issue, in the amount of R\$ 400,000, as follows:

	Value	Maturity	Remuneration
Series 1	100,000	July/2026	IPCA+ 3.20 p.a.
Series 2	300,000	July/2029	IPCA + 3.37 p.a.

#### (ii) Covenants

##### Applicable to the 23<sup>rd</sup> issue and 24<sup>th</sup> issue:

Calculated every quarter upon the disclosure of interim or annual financial statements:

- Net debt/ EBITDA: lower than or equal to 3.50;
- Adjusted EBITDA/ paid financial expenses: equal to or higher than 1.5;
- Disposal of operating assets, extinguishment of license, loss of concession or loss of Issuer's capacity to execute and operate the basic sanitation public utilities in areas of the State of São Paulo territory, which considered individually or jointly during the deed's effectiveness, result in a reduction of net sales revenue and/or services revenue of the Issuer exceeding twenty-five percent (25%). The limit established above will be calculated quarterly, taking into account the Issuer's operating income for the twelve (12) months preceding the end of each quarter and applying the financial information disclosed by the Issuer.

Non-compliance with the covenant clauses, during, at least, two consecutive quarters, or also two nonconsecutive quarters within a twelve-month period shall result in the early maturity of the agreement.

The agreement has a clause that, in case of early maturity of any Company debt, in an individual or aggregate amount equal to or higher than R\$ 145 million, adjusted by the variation of the IPCA as from the issue date, is a default event that may cause the early maturity of the obligations arising from the Debentures.

# Companhia de Saneamento Básico do Estado de São Paulo - SABESP

## Notes to the Financial Statements

Years ended December 31, 2019, 2018 and 2017

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### (b) BNDES

#### (i) Funding

The initial funding of agreement 14.2.0535.1 (BNDES 2014), totaling R\$ 33,000, was carried out on June 18, 2019. The agreement, totaling R\$ 61,143, signed on June 30, 2014, is for the implementation of Setor Gênese (sub-conductor) and Fazendinha, in the Municipality of Santana de Parnaíba, in São Paulo. The contract will be amortized in 85 installments, began in July 2019 and is expected to end in July 2026.

#### (ii) Covenants

##### Applicable to financing agreement no. 14.2.0535.1 (BNDES 2014)

The financing agreements entered into with the BNDES specifies two ranges in which the Company needs to maintain its Adjusted EBITDA / Adjusted Financial Expenses, Adjusted Net Debt / Adjusted EBITDA, and Other Onerous Debt / Adjusted EBITDA ratios.

This agreements also specifies a guarantee mechanism in which the Company needs to ensure that a portion of the monthly receivables amount is daily recorded in a fiduciary account linked to the BNDES. In this process, every day, after the BNDES notifies the depositary bank that the Company is not in default, this portion of the monthly receivables amount is transferred to a Company current account.

The renegotiated/amended covenants are:

A. Maintenance of the following ratios, quarterly calculated and related to accrued amounts over the last 12 months, upon the disclosure of reviewed interim financial statements or audited annual financial statements entails the need to record R\$225.9 million per month in a fiduciary account linked to the BNDES:

- Adjusted EBITDA / Adjusted financial expenses equal to or higher than 3.50;
- Adjusted net debt / Adjusted EBITDA equal to or lower than 3.00;
- Other onerous debt (\*) / Adjusted EBITDA equal to or lower than 1.00.

(\*)“Other Onerous Debts” correspond to the sum of social security liabilities, health care plan, installment payment of tax debts and installment payment of debts with the Electricity supplier.

# Companhia de Saneamento Básico do Estado de São Paulo - SABESP

## Notes to the Financial Statements

Years ended December 31, 2019, 2018 and 2017

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- B. In case of failure to comply with one or more ratios specified in item A, in two or more quarters, consecutive or not, within twelve months, the Company will be failing to comply with the first range of ratios and the portion of the monthly receivables to be recorded in a fiduciary account linked to the BNDES will be automatically increased by 20%, if the ratios are maintained in the following range:
- Adjusted EBITDA / Adjusted financial expenses lower than 3.50 and equal to or higher than 2.80;
  - Adjusted net debt / adjusted EBITDA equal to or lower than 3.80 and higher than 3.00;
  - Other onerous debt / Adjusted EBITDA equal to or lower than 1.30 and higher than 1.00.
- C. The failure to achieve one or more than one ratio stipulated in item B, and/or the Company does not comply with the automatic reinforcement of guarantee under the terms of item B, the Company will be failing to comply with the covenant terms and the BNDES may, at its sole discretion:
- require the creation of additional guarantees, not below 30 days, within term to be defined by it through notice;
  - suspend the release of funds; and/or
  - declare the early maturity of the financing agreements.

As of December 31, 2019, the amount of R\$255.3 million was guaranteed for the BNDES agreements.

### (c) Leases

The Company has work service agreements which includes specific assets under lease terms. During the construction period, works are capitalized to intangible assets in progress and the lease amount is recorded at the same proportion.

After startup, the lease payment period starts (240 monthly installments), whose amount is periodically restated by contracted price index.

# Companhia de Saneamento Básico do Estado de São Paulo - SABESP

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### (d) Financial commitments - Covenants

The table below shows the more restrictive covenants ratios as of December 31, 2019.

	<b>Restrictive Ratios</b>
Adjusted EBITDA / Adjusted financial expenses	Equal to or higher than 2.80
Adjusted net debt / Adjusted EBITDA	Equal to or lower than 3.80
Adjusted total debt / Adjusted EBITDA	Lower than 3.65
Other onerous debt <sup>(1)</sup> / Adjusted EBITDA	Equal to or lower than 1.30
Adjusted current ratio	Higher than 1.00
EBITDA / Paid financial expenses	Equal to or higher than 2.35
Net debt / Adjusted EBITDA	Equal to or lower than 3.50

(1) "Other Onerous Debts" correspond to the sum of social security liabilities, health care plan, installment payment of tax debts and installment payment of debts with electricity supplier.

As of December 31, 2019 and 2018, the Company met the financial debt covenants as set forth by its borrowing and financing agreements.

### (e) Borrowings and financing – Credit Limits

<b>Agent</b>	<b>December 31, 2019</b>
	(in millions of reais (*))
Brazilian Federal Savings Bank	1,729
Brazilian Development Bank – BNDES	1,203
Japan International Cooperation Agency – JICA	94
Inter-American Development Bank – BID	1,209
International Bank for Reconstruction and Development - IBRD	1,005
Other	41
<b>TOTAL</b>	<b>5,281</b>

(\*) Brazilian Central Bank's exchange sell rate as of December 30, 2019 (US\$ 1.00 = R\$ 4.0307; ¥ 1.00 = R\$ 0.03715) .

Financing resources contracted have specific purposes, which have been released for the execution of their respective investments, according to the progress of the works.

# Companhia de Saneamento Básico do Estado de São Paulo - SABESP

## Notes to the Financial Statements

Years ended December 31, 2019, 2018 and 2017

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### 17 Taxes recoverable/payable

#### (a) Current assets

	December 31, 2019	December 31, 2018
<b>Recoverable taxes</b>		
Income tax and social contribution	136,436	361,758
Withholding income tax (IRRF) on financial investments	1,359	6,423
Other federal taxes	3,471	12,522
<b>Total</b>	<b>141,266</b>	<b>380,703</b>

#### (b) Current liabilities

	December 31, 2019	December 31, 2018
<b>Taxes and contributions payable</b>		
Cofins and Pasep	94,027	82,381
INSS (Social Security contribution)	39,404	38,871
IRRF (withholding income tax)	69,932	66,825
Other	46,955	12,486
<b>Total</b>	<b>250,318</b>	<b>200,563</b>

### 18 Deferred taxes and contributions

#### (a) Statement of financial position details

	December 31, 2019	December 31, 2018
<b>Deferred income tax assets</b>		
Provisions	366,673	337,833
Pension obligations - G1	157,998	157,044
Donations of underlying asset on concession agreements	51,818	54,131
Credit losses	145,622	197,920
Other	183,147	186,887
<b>Total deferred tax assets</b>	<b>905,258</b>	<b>933,815</b>
<b>Deferred income tax liabilities</b>		
Temporary difference on concession of intangible asset	(408,732)	(433,842)
Capitalization of borrowing costs	(409,236)	(420,978)
Profit on supply to governmental entities	(372,289)	(206,978)
Actuarial gain/loss – G1 Plan	(54,222)	(36,430)
Construction margin	(83,399)	(86,164)
Borrowing costs	(11,376)	(10,665)
<b>Total deferred tax liabilities</b>	<b>(1,339,254)</b>	<b>(1,195,057)</b>
<b>Deferred tax assets (liabilities), net</b>	<b>(433,996)</b>	<b>(261,242)</b>

# Companhia de Saneamento Básico do Estado de São Paulo - SABESP

## Notes to the Financial Statements

Years ended December 31, 2019, 2018 and 2017

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### (b) Realization

	December 31, 2019	December 31, 2018
<b>Deferred income tax assets</b>		
to be realized within 12 months	189,740	158,294
to be realized after one year	715,518	775,521
<b>Total deferred tax assets</b>	<b>905,258</b>	<b>933,815</b>
<b>Deferred income tax liabilities</b>		
to be realized within 12 months	(35,954)	(32,546)
to be realized after one year	(1,303,300)	(1,162,511)
<b>Total deferred tax liabilities</b>	<b>(1,339,254)</b>	<b>(1,195,057)</b>
Deferred tax asset (liabilities)	(433,996)	(261,242)

### (c) Changes

	December 31, 2018	Net change	December 31, 2019
<b>Deferred income tax assets</b>			
Provisions	337,833	28,840	366,673
Pension obligations - G1	157,044	954	157,998
Donations of underlying asset on concession agreements	54,131	(2,313)	51,818
Credit losses	197,920	(52,298)	145,622
Other	186,887	(3,740)	183,147
<b>Total</b>	<b>933,815</b>	<b>(28,557)</b>	<b>905,258</b>
<b>Deferred income tax liabilities</b>			
Temporary difference on concession of intangible asset	(433,842)	25,110	(408,732)
Capitalization of borrowing costs	(420,978)	11,742	(409,236)
Profit on supply to governmental entities	(206,978)	(165,311)	(372,289)
Actuarial (gain)/loss – G1	(36,430)	(17,792)	(54,222)
Construction margin	(86,164)	2,765	(83,399)
Borrowing costs	(10,665)	(711)	(11,376)
<b>Total</b>	<b>(1,195,057)</b>	<b>(144,197)</b>	<b>(1,339,254)</b>
Deferred tax assets (liabilities), net	(261,242)	(172,754)	(433,996)

# Companhia de Saneamento Básico do Estado de São Paulo - SABESP

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	December 31, 2017	Net change	December 31, 2018
<b>Deferred income tax assets</b>			
Provisions	482,863	(145,030)	337,833
Pension obligations - G1	165,503	(8,459)	157,044
Donations of underlying asset on concession agreements	55,112	(981)	54,131
Credit losses	199,063	(1,143)	197,920
Other	151,562	35,325	186,887
<b>Total</b>	<b>1,054,103</b>	<b>(120,288)</b>	<b>933,815</b>
<b>Deferred income tax liabilities</b>			
Temporary difference on concession of intangible asset	(460,177)	26,335	(433,842)
Capitalization of borrowing costs	(415,379)	(5,599)	(420,978)
Profit on supply to governmental entities	(76,705)	(130,273)	(206,978)
Actuarial (gain)/loss – G1	(36,538)	108	(36,430)
Construction margin	(88,947)	2,783	(86,164)
Borrowing costs	(13,111)	2,446	(10,665)
<b>Total</b>	<b>(1,090,857)</b>	<b>(104,200)</b>	<b>(1,195,057)</b>
<b>Deferred tax assets (liabilities), net</b>	<b>(36,754)</b>	<b>(224,488)</b>	<b>(261,242)</b>

	December 31, 2016	Net change	December 31, 2017
<b>Deferred income tax assets</b>			
Provisions	524,129	(41,266)	482,863
Actuarial gain/loss – G1	85,044	(85,044)	-
Pension obligations - G1	167,922	(2,419)	165,503
Donations of underlying asset on concession agreements	57,317	(2,205)	55,112
Credit losses	266,757	(67,694)	199,063
Other	151,247	315	151,562
<b>Total</b>	<b>1,252,416</b>	<b>(198,313)</b>	<b>1,054,103</b>
<b>Deferred income tax liabilities</b>			
Temporary difference on concession of intangible asset	(492,341)	32,164	(460,177)
Capitalization of borrowing costs	(374,512)	(40,867)	(415,379)
Profit on supply to governmental entities	(92,365)	15,660	(76,705)
Actuarial gain/loss – G1	-	(36,538)	(36,538)
Construction margin	(91,790)	2,843	(88,947)
Borrowing costs	(15,063)	1,952	(13,111)
<b>Total</b>	<b>(1,066,071)</b>	<b>(24,786)</b>	<b>(1,090,857)</b>
<b>Deferred tax assets (liabilities), net</b>	<b>186,345</b>	<b>(223,099)</b>	<b>(36,754)</b>

# Companhia de Saneamento Básico do Estado de São Paulo - SABESP

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Amounts in thousands of reais, unless otherwise indicated

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	<u>December 31, 2019</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Opening balance	<b>(261,242)</b>	<b>(36,754)</b>	<b>186,345</b>
Net change in the year:			
- corresponding entry to the income statement	(154,962)	(224,596)	(101,517)
- corresponding entry to valuation adjustments to equity (Note 20 (b))	(17,792)	108	(121,582)
Total net change	<u>(172,754)</u>	<u>(224,488)</u>	<u>(223,099)</u>
Closing balance	<b>(433,996)</b>	<b>(261,242)</b>	<b>(36,754)</b>



# Companhia de Saneamento Básico do Estado de São Paulo - SABESP

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### (d) Reconciliation of the effective tax rate

The amounts recorded as income tax and social contribution expenses in the financial statements are reconciled to the statutory rates, as shown below:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Profit before income taxes	4,677,942	3,912,319	3,503,614
Statutory rate	<u>34%</u>	<u>34%</u>	<u>34%</u>
Estimated expense at statutory rate	(1,590,500)	(1,330,186)	(1,191,229)
Tax benefit of interest on equity	312,339	264,816	245,444
Permanent differences			
Provision – Law 4,819/1958 – G0 (i)	(44,426)	(46,544)	(57,104)
Donations	(19,888)	(13,068)	(12,413)
Other differences	<u>32,050</u>	<u>47,731</u>	<u>30,998</u>
Income tax and social contribution	<u>(1,310,425)</u>	<u>(1,077,251)</u>	<u>(984,304)</u>
Current income tax and social contribution	(1,155,463)	(852,655)	(882,787)
Deferred income tax and social contribution	(154,962)	(224,596)	(101,517)
Effective rate	28%	28%	28%

(i) Permanent difference related to the provision for actuarial liability (Note 20 (b) (iii)).

# Companhia de Saneamento Básico do Estado de São Paulo - SABESP

## Notes to the Financial Statements

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### 19 Provisions

#### (a) Lawsuits and proceedings that resulted in provisions

##### (I) Statement of financial position details

The Company is party to a number of claims and legal proceedings arising from the normal course of business, including civil, tax, labor and environmental matters. Management recognizes provisions in the financial statements consistently with the recognition and measurement criteria established in Note 3.14. The ultimate timing and amounts of the payments depends on the outcome of the court cases.

			December 31,		December 31,	
	Provisions	Escrow deposits	2019	Provisions	Escrow deposits	2018
Customer claims (i)	253,665	(9,973)	243,692	290,649	(43,841)	246,808
Supplier claims (ii)	153,654	(298)	153,356	67,985	(24,380)	43,605
Other civil claims (iii)	93,910	(16,496)	77,414	98,302	(13,519)	84,783
Tax claims (iv)	59,143	(3,518)	55,625	63,335	(8,091)	55,244
Labor claims (v)	325,129	(12,329)	312,800	302,935	(10,932)	292,003
Environmental claims (vi)	192,950	(29)	192,921	170,419	-	170,419
<b>Total</b>	<b>1,078,451</b>	<b>(42,643)</b>	<b>1,035,808</b>	<b>993,625</b>	<b>(100,763)</b>	<b>892,862</b>
Current	550,247	-	550,247	458,387	-	458,387
Noncurrent	528,204	(42,643)	485,561	535,238	(100,763)	434,475

# Companhia de Saneamento Básico do Estado de São Paulo - SABESP

## Notes to the Financial Statements

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### (II) Changes

	December 31, 2018	Additional provisions	Interest and inflation adjustment	Use of the accrual	Amounts not used (reversal)	December 31, 2019
Customer claims (i)	290,649	57,314	53,929	(99,379)	(48,848)	253,665
Supplier claims (ii)	67,985	54,223	102,686	(42,948)	(28,292)	153,654
Other civil claims (iii)	98,302	28,888	18,713	(9,766)	(42,227)	93,910
Tax claims (iv)	63,335	11,821	2,918	(4,982)	(13,949)	59,143
Labor claims (v)	302,935	167,995	61,483	(112,084)	(95,200)	325,129
Environmental claims (vi)	170,419	42,198	24,358	(312)	(43,713)	192,950
Subtotal	993,625	362,439	264,087	(269,471)	(272,229)	1,078,451
Escrow deposits	(100,763)	(14,051)	(11,844)	19,191	64,824	(42,643)
Total	892,862	348,388	252,243	(250,280)	(207,405)	1,035,808

	December 31, 2017	Additional provisions	Interest and inflation adjustment	Use of the accrual	Amounts not used (reversal)	December 31, 2018
Customer claims (i)	438,619	29,732	40,749	(141,421)	(77,030)	290,649
Supplier claims (ii)	332,037	36,100	21,161	(308,253)	(13,060)	67,985
Other civil claims (iii)	114,544	22,578	12,939	(16,146)	(35,613)	98,302
Tax claims (iv)	77,100	10,763	4,157	(2,490)	(26,195)	63,335
Labor claims (v)	299,842	83,499	32,290	(44,900)	(67,796)	302,935
Environmental claims (vi)	160,446	33,392	18,294	(115)	(41,598)	170,419
Subtotal	1,422,588	216,064	129,590	(513,325)	(261,292)	993,625
Escrow deposits	(344,384)	(53,205)	(5,533)	269,248	33,111	(100,763)
Total	1,078,204	162,859	124,057	(244,077)	(228,181)	892,862

	December 31, 2016	Additional provisions	Interest and inflation adjustment	Use of the accrual	Amounts not used (reversal)	December 31, 2017
Customer claims (i)	572,210	26,642	44,805	(138,466)	(66,572)	438,619
Supplier claims (ii)	332,667	23,017	36,888	(39,433)	(21,102)	332,037
Other civil claims (iii)	131,286	13,517	12,057	(19,975)	(22,341)	114,544
Tax claims (iv)	69,898	6,877	7,392	(259)	(6,808)	77,100
Labor claims (v)	285,413	55,106	38,861	(43,498)	(36,040)	299,842
Environmental claims (vi)	150,084	32,377	16,156	(24,585)	(13,586)	160,446
Subtotal	1,541,558	157,536	156,159	(266,216)	(166,449)	1,422,588
Escrow deposits	(368,483)	(29,089)	(7,823)	15,354	45,657	(344,384)
Total	1,173,075	128,447	148,336	(250,862)	(120,792)	1,078,204

# Companhia de Saneamento Básico do Estado de São Paulo - SABESP

## Notes to the Financial Statements

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### (b) Lawsuits deemed as contingent liabilities

The Company is party to lawsuits and administrative proceedings relating to environmental, tax, civil and labor claims, which are assessed as contingent liabilities in the financial statements, since it either does not expect outflows to be required or the amount of the obligation cannot be reliably measured. Contingent liabilities, net of escrow deposits, are represented as follows:

	December 31, 2019	December 31, 2018
Customer claims (i)	86,061	207,600
Supplier claims (ii)	1,986,736	1,459,100
Other civil claims (iii)	679,623	719,300
Tax claims (iv)	1,184,811	1,439,100
Labor claims (v)	631,364	624,200
Environmental claims (vi)	4,864,894	4,343,800
Total	9,433,489	8,793,100

### (c) Explanation on the nature of main classes of lawsuits

#### (i) Customer claims

Approximately 680 lawsuits (890 as of December 31, 2018) were filed by commercial customers, who claim that their tariffs should correspond to other consumer categories, and 320 lawsuits (490 as of December 31, 2018) in which customers claim a reduction in the sewage tariff due to losses in the system, consequently requesting the refund of amounts charged by the Company and 30 lawsuits (40 as of December 31, 2018) in which customers plead the reduction in tariff under the category as "Social Welfare Entity". The R\$ 121,539 decrease in the lawsuits deemed as contingent liabilities was mainly due to the revisions of expectations arising from court decisions in the period.

# Companhia de Saneamento Básico do Estado de São Paulo - SABESP

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### (ii) Supplier claims

These lawsuits include lawsuits filed by some suppliers alleging underpayment of monetary restatements and the economic and financial imbalance of the agreements, and are in progress at different courts. The R\$ 109,751 increase in accrued lawsuits was mainly due to revisions of expectations arising from court decisions in the period. The R\$ 527,636 increase in lawsuits deemed as contingent liabilities is mainly due to updates and revisions of expectations arising on lawsuits in progress.

### (iii) Other civil claims

These mainly refer to indemnities for property damage, pain and suffering, and loss of profits allegedly caused to third parties, such as vehicle accidents, claims, challenges on the methodology to collect tariffs, among others, filed at different court levels.

### (iv) Tax claims

Tax claims refer mainly to issues related to tax collections and fines in general challenged due to disagreements regarding notification or differences in the interpretation of legislation by the Company's Management, that were accrued and others that were deemed as contingent liabilities. The R\$ 254,289 decrease in lawsuits deemed as contingent liabilities was mainly due to changes in expectations arising from agreements with the municipalities of Guarujá and São Bernardo do Campo in the period.

The municipality of São Paulo, through law, revoked the services tax exemption which until then the company withheld and thereafter issued tax deficiency notices related to the sewage service and ancillary activities, in the updated amount of R\$ 664,669 (R\$ 605,008 as of December 31, 2018), which currently are subject-matter of three Tax Foreclosures. SABESP filed a writ of mandamus against this revocation, which was rejected. Writs of prevention and actions for annulment were also filed, aiming the suspension of enforceability of credits and the annulment of tax deficiency notices, as it understands that notwithstanding the exemption revocation, the sewage activities and ancillary activities are not included in the list of activities subject to taxation by municipality. The appellate decision was favorable to the Company. The Municipality's special and extraordinary appeal is still pending. The Company deemed the proceeding as contingent liability.

# Companhia de Saneamento Básico do Estado de São Paulo - SABESP

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### (v) Labor claims

The Company is a party to a number of labor lawsuits, involving issues such as overtime, shift schedule, health hazard premium and hazardous duty premium, prior notice, change of function, salary equalization, service outsourcing and other, which are at various court levels.

### (vi) Environmental claims

These refer to several administrative proceedings and lawsuits filed by government entities, including Companhia Ambiental do Estado de São Paulo – CESTESB and the Public Prosecution Office of the State of São Paulo, that aim affirmative and negative covenants and penalty is estimated due to failure to comply in addition to the imposition of indemnity due to environmental damages allegedly caused by the Company. The R\$ 22,502 and 521,004 increases in accrued lawsuits and deemed as contingent liabilities, respectively, are mainly due to updates and revision of estimates on lawsuits in progress in the period.

Among the main lawsuits the Company is involved, there are public civil actions the subject-matters of which are: a) sentence SABESP to restrain itself from discharging or releasing sewage without due treatment; b) invest in the water and sewage treatment system of the municipality, under the penalty of paying a fine; c) payment of indemnity due to environmental damages, amongst others.

### (d) Other concession-related legal proceedings

The Company is a party to concessions-related proceedings, where it challenges compensatory issues for the resumption of sanitation services by some municipalities or by the right to continue operating said services.

The amount recorded as indemnities receivable in noncurrent assets, referring to municipalities of Cajobi, Macatuba, Álvares Florence, Embaúba, Araçoiaba da Serra, Itapira, Tuiuti e Mauá was R\$ 114,335 as December 31, 2019 (R\$ 109,990 as of December 31, 2018), with allowance for doubtful accounts in the full amount recorded. All municipalities mentioned are not operated by the Company. When a municipality is awarded a final and unappealable favorable sentence, allowing it to repossess sanitation service assets and operations, the Brazilian legislation provides for the indemnity of the Company's investments.

### (e) Environmental lawsuits with settlements

In 2019, the Company has not entered into any Environmental agreement. The accumulated balance as of December 31, 2019, corresponding to environmental indemnifications, totaled R\$ 43,923 (R\$ 44,828 as of December 31, 2018), recorded under "other liabilities".

# Companhia de Saneamento Básico do Estado de São Paulo - SABESP

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### (f) Guarantee insurance for escrow deposit

On May 25, 2019, the Company contracted guarantee insurance for escrow deposit, effective for one year, in the amount of R\$ 500 million. Such insurance will be used to settle legal claims instead of having cash disbursement by the Company, such insurance is used until the conclusion of these proceedings limited to up to five years.

In 2019, the Company used R\$ 126,4 million of the guarantee insurance (R\$ 160,4 in 2018), of which R\$ 75,5 million from the current contract with an outstanding amount of R\$ 424,5 million from the current contract.

## 20 Employees benefits

### (a) Health plan – Medical Assistance

Since August 1, 2019, the new health plans managed by Fundação CESP - FUNCESP, which replaced the previous health plans managed by SABESPREV, have been in effect. The health plan operator was changed by means of the signature of an Adhesion Agreement between the parties. The entire process was in accordance with the current industry law, which is applicable to SABESP, and was approved by the controlling authorities of the State Government.

Benefits are now paid after the event, free of choice, sponsored by contributions of SABESP and the employees is as follows: Company: 9.3% (December 31, 2018 – 7.2%) on average, of gross payroll, totaling R\$ 237,898 in 2019 (R\$ 196,281 in 2018).

### (b) Pension plan benefits

The Company has Post-Employment Benefit Plans in the following modalities: Defined Benefit (BD) – G1 (i) and G0 (ii); Defined Contribution (CD) – Sabesprev Mais (iii) and FUNCESP (iv).

## Statements of defined benefit plans

### Summary of pension obligations – Liabilities

	December 31, 2019			December 31, 2018		
	G1 Plan	G0 Plan	Total	G1 Plan	G0 Plan	Total
Present value of defined benefit obligations	(3,067,094)	(3,046,255)	(6,113,349)	(2,532,338)	(2,606,107)	(5,138,445)
Fair value of the plan's assets	2,752,417	-	2,752,417	2,168,436	-	2,168,436
Liability as per statement of financial position – pension obligations	(314,677)	(3,046,255)	(3,360,932)	(363,902)	(2,606,107)	(2,970,009)

# Companhia de Saneamento Básico do Estado de São Paulo - SABESP

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### Pension obligations

	December 31, 2019			December 31, 2018		
	G1 Plan	G0 Plan	Total	G1 Plan	G0 Plan	Total
Plan's liabilities						
Defined benefit obligation, beginning of the year	(2,532,338)	(2,606,107)	(5,138,445)	(2,319,841)	(2,543,877)	(4,863,718)
Current service cost	(47,001)	(227,367)	(274,368)	(13,905)	(232,248)	(246,153)
Interest cost	(224,429)	-	(224,429)	(213,201)	-	(213,201)
Actuarial (gains)/losses recorded as other comprehensive income	(392,876)	(397,597)	(790,473)	(114,188)	(10,783)	(124,971)
Benefits paid	129,550	184,816	314,366	128,797	180,801	309,598
Defined benefit obligation, end of the year	(3,067,094)	(3,046,255)	(6,113,349)	(2,532,338)	(2,606,107)	(5,138,445)
Plan's assets						
Fair value of the plan's assets, beginning of the year	2,168,436	-	2,168,436	1,931,380	-	1,931,380
Expected return on the plan assets	192,965	-	192,965	179,449	-	179,449
Expected Company's contributions	36,968	-	36,968	36,199	-	36,199
Expected participant's contributions	38,391	-	38,391	36,336	-	36,336
Benefits paid	(129,549)	-	(129,549)	(128,797)	-	(128,797)
Actuarial gains/(losses) recorded as other comprehensive income	445,206	-	445,206	113,869	-	113,869
Fair value of the plan's assets, end of the year	2,752,417	-	2,752,417	2,168,436	-	2,168,436
(Deficit)/Surplus	(314,677)	(3,046,255)	(3,360,932)	(363,902)	(2,606,107)	(2,970,009)



# Companhia de Saneamento Básico do Estado de São Paulo - SABESP

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Despite the decrease in interest rate in the year, the decrease of actuarial deficit in G1 Plan was mainly due to the higher profitability of the plan's assets.

### Other comprehensive income

Pursuant to IAS19, the Company recognizes gains/(losses), due to changes in assumptions under equity, as valuation adjustments to equity, as shown below:

	December 31, 2019			December 31, 2018			December 31, 2017		
	G1 Plan	GO Plan	Total	G1 Plan	GO Plan	Total	G1 Plan	GO Plan	Total
Actuarial gains/(losses) on obligations	(392,876)	(397,597)	(790,473)	(114,188)	(10,783)	(124,971)	305,511	51,535	357,046
Actuarial gains/(losses) recorded as other comprehensive income	445,206	-	445,206	113,869	-	113,869	52,083	-	52,083
Total gains/(losses)	52,330	(397,597)	(345,267)	(319)	(10,783)	(11,102)	357,594	51,535	409,129
Deferred income tax and social contribution	(17,792)	-	(17,792)	108	-	108	(121,582)	-	(121,582)
Valuation adjustments to equity	34,538	(397,597)	(363,059)	(211)	(10,783)	(10,994)	236,012	51,535	287,547

The amounts recognized in the year are as follows:

	December 31, 2019			December 31, 2018			December 31, 2017		
	G1 Plan	GO Plan	Total	G1 Plan	GO Plan	Total	G1 Plan	GO Plan	Total
Cost of service, net	8,609	227,367	235,976	(22,431)	232,248	209,817	(35,093)	262,873	227,780
Interest cost rates	224,429	-	224,429	213,201	-	213,201	260,409	-	260,409
Expected return on the plan's assets	(192,965)	-	(192,965)	(179,449)	-	(179,449)	(183,689)	-	(183,689)
Amount received from GESP (undisputed)	-	(97,300)	(97,300)	-	(96,282)	(96,282)	-	(95,191)	(95,191)
Total expenses	40,073	130,067	170,140	11,321	135,966	147,287	41,627	167,682	209,309

Actuarial assumptions:

	December 31, 2019		December 31, 2018		December 31, 2017	
	G1 Plan	GO Plan	G1 Plan	GO Plan	G1 Plan	GO Plan
Discount rate – actual rate (NTN-B)	3.37% a.a.	3.36% a.a.	4.91% a.a.	4.84%	5.35% a.a.	5.30%
Inflation rate	3.5% a.a.	3.5% a.a.	4.01% a.a.	4.01%	3.96% a.a.	3.96%
Expected nominal rate of return on assets	6.99%a.a.	-	9.12%a.a.	-	9.52%a.a.	-
Nominal rate of salary growth	5.57% a.a.	5.57% a.a.	6.09% a.a.	6.09% a.a.	6.04% a.a.	6.04% a.a.
Mortality table	AT-2000	AT-2000	AT-2000	AT-2000	AT-2000	AT-2000

# Companhia de Saneamento Básico do Estado de São Paulo - SABESP

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### Sensitivity analysis

Sensitivity analysis of the defined benefit pension plan as of December 31, 2019 regarding the changes in the main assumptions are:

Assumptions	Change in assumption	Impact on present value of the defined benefit obligations	
		G1	G0
Discount rate	Increase of 1.0%	Decrease of R\$ 326,714	Decrease of R\$ 301,727
	Decrease of 1.0%	Increase of R\$ 396,026	Increase of R\$ 314,156
Life expectation	Increase of 1 year	Increase of R\$ 80,048	Increase of R\$ 117,324
	Decrease of 1 year	Decrease of R\$ 72,676	Decrease of R\$ 140,051
Wage increase rate	Increase of 1.0%	Increase of R\$ 36,140	Increase of R\$ 388,886
	Decrease of 1.0%	Decrease of R\$ 31,070	Decrease of R\$ 372,127

#### (i) G1 Plan

Managed by Sabesprev, the defined benefit plan ("G1 Plan") receives similar contributions established in a plan of subsidy of actuarial study of Sabesprev, as follows:

- 0.99% of the portion of the salary of participation up to 20 salaries; and
- 8.39% of the surplus, if any, of the portion of the salary of participation over 20 salaries.

In 2019, the expenses related to defined benefit obligation amounting to R\$ 29,637, R\$ 4,187 and R\$ 2,685 were recorded in operating costs, and selling and administrative expenses, respectively (R\$ 7,530, R\$ 1,133 and R\$ 704 in 2018 and R\$ 35,156, R\$ 1,864 and R\$ 619 in 2017). The amount of R\$ 3,564 (R\$ 1,955 in 2018) was capitalized in assets.

The active participants as of December 31, 2019 totaled 3,758 (4,056 as of December 31, 2018), while inactive participants were 7,399 (7,149 as of December 31, 2018).

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The expected benefit to be paid in 2020 referring to the G1 pension plan is R\$ 167,202.

The contributions of the Company and participants of the G1 Plan in 2019 were R\$ 36,968 (R\$ 36,199 in 2018) and R\$ 38,391 (R\$ 36,336 in 2018), respectively. Of this amount, the Company and the participants' payments corresponding to the actuarial deficit of the G1 pension plan totaled R\$ 25,531 and R\$ 13,497, respectively, in 2019.

### Estimated expenses

	<b>2020</b>
Service cost	3,796
Interest cost rates	208,485
Net profitability on financial assets	(187,317)
Expense to be recognized by the employee	24,964

### Plan's assets

The plan's investment policies and strategies are aimed at getting consistent returns and reduce the risks associated to the utilization of financial assets available on the Capital Markets through diversification, considering factors, such as the liquidity needs and the long-term nature of the plan liability, types and availability of financial instruments in the local and international markets, general economic conditions and forecasts as well as requirements under the law. The plan's asset allocation management strategies are determined with the support of reports and analysis prepared by Sabesprev and independent financial advisors:

	<b>December 31, 2019</b>	<b>%</b>	<b>December 31, 2018</b>	<b>%</b>
Total fixed income	1,795,554	65.2	1,477,643	68.1
Total equities	301,707	11.0	249,740	11.6
Total structures investments	630,933	22.9	431,828	19.9
Other	24,223	0.9	9,225	0.4
Fair value of the plan's assets	2,752,417	100	2,168,436	100

Restrictions with respect to asset portfolio investments, in the case of federal government securities:

- i) instruments securitized by the National Treasury will not be permitted;
- ii) derivative instruments must be used for hedge.

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Restrictions with respect to asset portfolio investments, in the case of variable-income securities for internal management, are as follows:

- i) day-trade operations will not be permitted;
- ii) sale of uncovered share is prohibited;
- iii) swap operations without guarantee are prohibited
- iv) leverage will not be permitted, i.e., operations with derivatives representing leverage of asset or selling short, such operations cannot result in losses higher than invested amounts.

As of December 31, 2019, Sabesprev did not have financial assets issued by the Company in its own portfolio; however, said assets could have been part of the investment fund portfolio invested by the Foundation. The real estate held in the portfolio is not used by the Company.

### (ii) GO Plan

Pursuant to State Law 4,819/1958, employees who started providing services prior to May 1974 and retired as an employee of the Company acquired a legal right to receive supplemental pension payments, which rights are referred as "GO Plan ". The Company pays these supplemental benefits on behalf of the State Government and makes claims for reimbursements from the State Government, which are recorded as accounts receivable from related parties, limited to the amounts considered virtually certain that will be reimbursed by the State Government.

The number of active participants of Plan - Go as of December 31, 2019 and 2018 was 10. The number of beneficiaries, retirees and survivors as of December 31, 2019 was 1,960 (2,038 as of December 31, 2018).

The benefit payable from the Go pension plan expected for 2020 is R\$180,382.

In 2019 and 2018, the expenses related to the defined benefit obligation under Plan GO were recorded in administrative expenses.

### Estimated expenses for 2020

	<u>2020</u>
Interest cost rate	206,262
Expense to be recognized	<u>206,262</u>

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### (iii) Sabesprev Mais Plan

As of December 31, 2019, this Defined Contribution Plan administered by Sabesprev had had 9,774 active and assisted participants (9,586 as of December 31, 2018).

With respect to the Sabesprev Mais plan, the contributions from the sponsor represent 100% over the total basic contribution from the participants.

In 2019, the expenses related to defined pension plan amounting to R\$ 14,293, R\$ 1,865 and R\$ 3,845 were recorded in operating costs, and selling and administrative expenses, respectively (R\$ 13,227, R\$ 1,820 and R\$ 3,599 in 2018 and R\$ 12,034, R\$ 1,744 and R\$ 3,245 in 2017). The amount of R\$ 2,458 (R\$ 2,115 in 2018) was capitalized in assets.

### (iv) FUNCESP plan

Sabesprev Mais Plan was closed to new adhesions on December 31, 2019, and as of January 1, 2020, hired employees will have the option to join the Fundação Cesp Defined Contribution Plan (FUNCESP), as well as those employees not opting for the Sabesprev Mais Plan.

### (c) Profit sharing

The Company has a profit-sharing program in accordance with an agreement with labor union and SABESP. The period covered represents the Company fiscal year, from January to December 2019. The limit of the profit sharing is up to one-month salary for each employee, depending on performance goals reached. As of December 31, 2019, the Program's balance payable was recorded under "salaries, payroll charges and social contributions" in the amount of R\$ 93,486 (R\$ 110,464 as of December 31, 2018).

## 21 Services payable

The services account records the balances payable, mainly from services received from third parties, such as supply of electric power, reading of hydrometers and delivery of water and sewage bills, cleaning, surveillance and security services, collection, legal counsel services, audit, marketing and advertising and consulting services, among others. This account also includes the amounts payable to the Municipal Fund of Environmental Sanitation and Infrastructure based on a percentage of the revenues from São Paulo municipal government (Note 14 (c) (v) (6)). The balances as of December 31, 2019 and 2018 were R\$ 474,078 and R\$ 454,022, respectively.

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### 22 Knowledge Retention Program

#### a) Knowledge Retention Program (PRC)

In June 2018, SABESP implemented the Knowledge Retention Program (PRC), which is expected to end in December 2020, aiming to provide personnel planning conditions and mitigate the impact of the exit of employees who possess strategic knowledge acquired throughout their career.

For those enrolled in the Program, the compliance with the agreements of the Collective Bargaining Agreement effective on the date of termination is thereby guaranteed. They will also receive a severance incentive proportional to the length of service at SABESP, corresponding to a percentage of the balance of the Guarantee Fund for Length of Service (FGTS), for termination purposes, on the date of termination.

In 2019, the Company paid the amount of R\$ 43,905, corresponding to the exit of employees enrolled in the Program. As of December 31, 2019, the total balance was R\$ 153,377 in current liabilities (as of December 31, 2018 - R\$ 74,324 in current liabilities and R\$ 122,148 in non-current liabilities).

#### b) Consent Decree (“TAC”)

On February 20, 2009, SABESP signed a Consent Decree, proposed by the State Prosecution Office, in which the Company undertook to: a) continue hiring employees by means of public competition, except for filling positions in commission or trust functions; b) gradually dismissing retired employees, replacing them with permanent staff, except in segments where increased efficiency requires the reduction in the effective number of employees.

The Consent Decree clarifies *“the need of training and carrying out phased dismissal of approximately two thousand an two hundred (2,200) retired employees within a reasonable period of time, as well as those who will retire in the future”*, which allowed interpreting that the Consent Decree did not cover the approximately 2,200 retirees at that time, but all other employees who retire at SABESP. Accordingly, the Company created a provision for indemnity of all retired employees who worked at SABESP.

On October 11, 2019, the Prosecutor filed the Consent Decree stating that for the time elapsed and the successive information provided by SABESP, the objective of the Consent Decree was fully complied with. Accordingly, the amount of R\$ 173,284, corresponding to the provisioned amount related to number of employees who retired after February 20, 2009 was reversed, taking into consideration that the Consent Decree was filed following the dismissal of the 2,200 retired employees on the date the Decree was signed.

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As of December 31, 2019, the amount provisioned under “Labor obligations”, related to the Consent Decree totaled R\$ 10,472 (R\$ 140,818 as of December 31, 2018), of which R\$ 8,242 (R\$ 136,293 as of December 31, 2018) under current liabilities, and R\$ 2,230 (R\$ 4,525 as of December 31, 2018) under noncurrent liabilities.

### 23 Equity

#### (a) Authorized capital

As of December 31, 2019 and 2018 the Company’s capital is R\$ 15,000,000.

#### (b) Subscribed and paid-in capital

As of December 31, 2019 and 2018, subscribed and paid-in capital was represented by 683,509,869 registered, book-entry common shares with no par value, as follows:

	December 31, 2019		December 31, 2018	
	Number of shares	%	Number of shares	%
State Department of Finance	343,524,285	50.26	343,524,285	50.26
Companhia Brasileira de Liquidação e Custódia (**)	235,643,765	34.47	212,612,143	31.10
The Bank of New York ADR Department (equivalent in shares) (*) (**)	103,823,655	15.19	125,278,967	18.33
Other	518,164	0.08	2,094,474	0.31
	<u>683,509,869</u>	<u>100.00</u>	<u>683,509,869</u>	<u>100.00</u>

(\*) each ADR corresponds to 1 share.

(\*\*) custodians

#### (c) Distribution of earnings

Shareholders are entitled to a minimum mandatory dividend of 25% of the adjusted net income under Brazilian GAAP, calculated according to the Brazilian corporate law. The dividends do not bear interest and the amounts not claimed within three years from the date of the Shareholders' Meeting that approved them mature in favor of the Company.

# Companhia de Saneamento Básico do Estado de São Paulo - SABESP

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	2019	2018	2017
Profit for the year	3,367,517	2,835,068	2,519,310
(-) Legal reserve - 5%	168,376	141,755	125,965
	3,199,141	2,693,313	2,393,345
Minimum mandatory dividend – 25%	799,785	673,328	598,336
Dividend per share and per ADS	1.17012	0.9851	0.87539

On April 29, 2019, the Shareholders' General Meeting approved the distribution of dividends as interest on capital amounting to R\$ 118,859, for the 2018 fiscal year. Therefore, the amount of R\$ 60,331 related to the surplus minimum mandatory dividends of 25%, set forth in the Bylaws, recorded in the 2018 equity under "Additional proposed dividends" was transferred to current liabilities. These amounts started being paid in June 2019.

The Company proposed dividends as interest on capital *ad referendum* of the Annual Shareholders' Meeting of 2020, in the amount of R\$ 799,785 (R\$ 673,328 in 2018) and additional proposed dividends in the amount of R\$ 141,203 (R\$ 118,859 in 2018), totaling R\$ 940,988 (R\$ 792,187 in 2018), corresponding to R\$ 1.3767 per common share (R\$ 1.1590 in 2018), to be resolved on the Shareholders' Meeting to be held on April 28, 2020. The amount exceeding the minimum mandatory dividend due in the year of R\$ 141,203 (R\$ 118,859 in 2018) was reclassified into equity to the "Additional proposed dividends" account, this amount includes the withholding income tax of R\$60,230 (R\$58,258 in 2018).

Pursuant to CVM Resolution 207/1996, the Company imputed interest on capital to the minimum dividend by its net value of withholding income tax. The amount of R\$ 60,230 (R\$ 58,258 in 2018) referring to the withholding income tax was recognized in current liabilities, in order to comply with tax liabilities related to the credit of interest on capital.

The interest on capital balance payable as of December 31, 2019, totaling R\$ 800,352 (R\$ 673,765 in 2018), refers to the amount of R\$ 799,785 (R\$ 673,328 in 2018) declared in 2019, net of withholding income tax and R\$ 567 declared in previous years (R\$ 437 in 2018).

### (d) Legal reserve

Earnings reserve - legal reserve is a requirement for all Brazilian corporations and represents an allocation of retained earnings of 5% of annual net income determined based on Brazilian law, up to 20% of capital. However, we are not required to make any allocations to our legal reserve in a year in which the legal reserve, when added to our other established capital and earnings reserves, exceeds 30% of our capital stock. The amounts allocated to such reserve may only be used to increase our capital stock or to offset losses and are not available for the payment of dividends.



# Companhia de Saneamento Básico do Estado de São Paulo - SABESP

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### (e) Investments reserve

Earnings reserve - investments reserve is specifically formed by the portion corresponding to own funds assigned to the expansion of the water supply and sewage treatment systems, based on capital budget approved by the Management.

As of December 31, 2019 and 2018, the balance of investment reserve totaled R\$6,098,575 and R\$3,840,422, respectively.

Pursuant to paragraph four of article 28 of the by-laws, the Board of Directors may propose to the Shareholders' Meeting that the remaining balance of profit for the year, after deducting the legal reserve and minimum mandatory dividends, be allocated to an investment reserve that will comply with the following criteria:

- I- its balance, jointly with the balance of the other earnings reserves, except for reserves for contingencies and realizable profits, may not exceed the capital stock;
- II- the reserve is intended to guarantee the investment plan and its balance may be used:
  - a) to absorb losses, whenever necessary;
  - b) to distribute dividends, at any moment;
  - c) in share redemption, reimbursement or purchase transactions authorized by law;
  - d) in incorporation to the capital stock.

### (f) Allocation of profit for the year

	<b>2019</b>	<b>2018</b>	<b>2017</b>
Profit			
(+) Profit for the year	3,367,517	2,835,068	2,519,310
(-) Legal reserve – 5%	168,376	141,755	125,965
(-) Minimum mandatory dividends	799,785	673,328	598,336
(-) Additional proposed dividends	141,203	118,859	105,543
Investment reserve recorded	<u>2,258,153</u>	<u>1,901,126</u>	<u>1,689,466</u>

Management will send for approval at the Shareholders' Meeting, a proposal to reallocate retained earnings the amount of R\$2,258,153 to the Investment Reserve account, in order to meet the investment needs foreseen in the Capital Budget.

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### (g) Retained earnings

Retained earnings (accumulated losses): the statutory balance of this account is zero as all retained earnings must be distributed or allocated to an earnings reserve.

### (h) Other comprehensive loss

Gains and losses arising from changes in the actuarial assumptions are accounted for as equity valuation adjustments, net of income tax and social contribution effects. See Note 20 (b), the breakdown of amounts recorded in 2019 and 2018.

	<u>G1 plan</u>	<u>G0 plan</u>	<u>Total</u>
Balance as of December 31, 2018	70,716	(619,811)	(549,095)
Actuarial gains/(losses) for the year (Note 20 (b))	34,538	(397,597)	(363,059)
Balance as of December 31, 2019	105,254	(1,017,408)	(912,154)

## 24 Earnings per share

### Basic and diluted

Basic earnings per share is calculated by dividing the equity attributable to the Company's owners by the weighted average number of outstanding common shares during the year. The Company does not have potentially dilutive common shares outstanding or debts convertible into common shares. Accordingly, basic and diluted earnings per share are equal.

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Earnings attributable to Company's owners	3,367,517	2,835,068	2,519,310
Weighted average number of common shares issued	683,509,869	683,509,869	683,509,869
Basic and diluted earnings per share (reais per share)	4.93	4.15	3.69

## 25 Operating segment information

Management, comprised of the Board of Directors and Board of Executive Officers, has determined the operating segment used to make strategic decisions, as sanitation services.

# Companhia de Saneamento Básico do Estado de São Paulo - SABESP

## Notes to the Financial Statements

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### Result

	2019		
	Sanitation (i)	Reconciliation to the financial statements (ii)	Balance as per financial statements
Gross operating revenue	16,134,032	2,946,566	19,080,598
Gross sales deductions	(1,096,944)	-	(1,096,944)
Net operating revenue	15,037,088	2,946,566	17,983,654
Costs, selling and administrative expenses	(9,375,590)	(2,881,394)	(12,256,984)
Income from operations before other net operating expenses, net and equity accounting	5,661,498	65,172	5,726,670
Other operating income / (expenses), net			(18,748)
Equity accounting			3,701
Financial result, net			(1,033,681)
Income from operations before taxes			4,677,942
Depreciation and amortization	(1,780,094)		(1,780,094)

(i) See note 32 for further information about non-cash items, other than depreciation and amortization that impact segment results, and for additional to long-lived asset information;

(ii) Construction revenue and related costs not reported to the CODM. Revenue from construction is recognized in accordance with IFRIC 12 (Concession Agreements) and IFRS 15 (Revenue from Contracts with Customers), as all performance obligations are satisfied over time. See Note 14 (e).

# Companhia de Saneamento Básico do Estado de São Paulo - SABESP

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	2018		Balance as per financial statements
	Sanitation (i)	Reconciliation to the financial statements (ii)	
Gross operating revenue	14,253,609	2,802,670	17,056,279
Gross sales deductions	(971,185)	-	(971,185)
Net operating revenue	13,282,424	2,802,670	16,085,094
Costs, selling and administrative expenses	(8,203,883)	(2,739,657)	(10,943,540)
Income from operations before other net operating expenses, net and equity accounting	5,078,541	63,013	5,141,554
Other operating income / (expenses), net			28,591
Equity accounting			6,510
Financial result, net			(1,264,336)
Income from operations before taxes			3,912,319
Depreciation and amortization	(1,392,541)		(1,392,541)

(i) See note 32 for further information about non-cash items, other than depreciation and amortization that impact segment results, and for additional to long-lived asset information;

(ii) Construction revenue and related costs not reported to the CODM. Revenue from construction is recognized in accordance with IFRIC 12 (Concession Agreements) and IFRS 15 (Revenue from Contracts with Customers), as all performance obligations are satisfied over time. See Note 14 (e).

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	2017		Balance as per financial statements
	Sanitation (i)	Reconciliation to the financial statements (ii)	
Gross operating revenue	12,223,746	3,150,877	15,374,623
Gross sales deductions	(766,390)	-	(766,390)
Net operating revenue	11,457,356	3,150,877	14,608,233
Costs, selling and administrative expenses	(7,566,104)	(3,080,542)	(10,646,646)
Income from operations before other net operating expenses, net and equity accounting	3,891,252	70,335	3,961,587
Other operating income / (expenses), net			(5,679)
Equity accounting			5,760
Financial result, net			(458,054)
Income from operations before taxes			3,503,614
Depreciation and amortization	(1,301,897)	-	(1,301,897)

(i) See note 32 for further information about non-cash items, other than depreciation and amortization that impact segment results, and for additional to long-lived asset information;

(ii) Construction revenue and related costs not reported to the CODM.

Explanation on the reconciliation items for the financial statements. The impacts on gross operating income and costs are as follows:

	2019	2018	2017
Gross revenue from construction recognized under IFRIC 12 (a)	2,946,566	2,802,670	3,150,877
Construction costs recognized under IFRIC 12 (a)	(2,881,394)	(2,739,657)	(3,080,542)
Construction margin	65,172	63,013	70,335

(a) Revenue from concession construction contracts is recognized in accordance with Note 3.3 (b).

# Companhia de Saneamento Básico do Estado de São Paulo - SABESP

## Notes to the Financial Statements

Years ended December 31, 2019, 2018 and 2017

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### 26 Insurance

The Company has insurance that covers fire and other damage to its assets and office buildings, and liabilities to third parties, among others. It also has civil liability insurance for the members of the Board of Directors and Board of Executive Officers (“D&O insurance”) and guarantee insurance for escrow deposit (as described in Note 19 (f)) and traditional guarantee insurance. The Company contracts insurance through bidding processes with the participation of the main Brazilian and international insurance companies that operate in Brazil.

As of December 31, 2019, the Company’s insurance coverage is as follows:

	<u>Coverage</u>
Specified risks – fire	2,185,827
Engineering risk	1,960,248
Guarantee insurance for escrow deposit	500,000
Traditional guarantee insurance	100,000
Civil liability– D&O (Directors and Officers)	100,000
Civil liability – works	105,695
Domestic and international transportation	6,058
Civil liability – operations	5,000
Other	14
Total	<u>4,962,842</u>

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### 27 Operating revenue

#### (a) Revenue from sanitation services:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Metropolitan region of São Paulo	11,849,776	10,295,509	8,636,926
Regional Systems	4,284,256	3,958,100	3,586,820
Total	<u>16,134,032</u>	<u>14,253,609</u>	<u>12,223,746</u>

#### (b) Reconciliation between gross operating income and net operating income:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Revenue from sanitation services (i)	16,134,032	14,253,609	12,223,746
Construction revenue	2,946,566	2,802,670	3,150,877
Sales tax	(1,035,051)	(916,808)	(757,619)
Regulatory, Control and Oversight Fee (TRCF) (ii)	(61,893)	(54,377)	(8,771)
Net revenue	<u>17,983,654</u>	<u>16,085,094</u>	<u>14,608,233</u>

(i) Includes the amount of R\$70,122 corresponding to the TRCF charged from customers from the municipalities regulated by ARSESP (R\$ 63,901 in 2018).

(ii) Amount payable to ARSESP referring to regulatory, control and oversight activities, pursuant to State Complementary Law 1,025/07.

# Companhia de Saneamento Básico do Estado de São Paulo - SABESP

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### 28 Operating costs and expenses

	2019	2018	2017
<b>Operating costs</b>			
Salaries, payroll charges and benefits	(1,938,265)	(1,959,539)	(1,841,571)
Pension obligations	(49,564)	(25,066)	(48,381)
Construction costs (Note 25)	(2,881,394)	(2,739,657)	(3,080,542)
General supplies	(259,401)	(238,034)	(163,712)
Treatment supplies	(310,380)	(265,146)	(287,592)
Outsourced services	(1,250,890)	(996,477)	(857,063)
Electricity	(1,140,160)	(956,840)	(794,352)
General expenses	(647,804)	(629,253)	(531,985)
Depreciation and amortization	(1,659,779)	(1,276,444)	(1,173,765)
	<u>(10,137,637)</u>	<u>(9,086,456)</u>	<u>(8,778,963)</u>
<b>Selling expenses</b>			
Salaries, payroll charges and benefits	(270,549)	(289,378)	(305,440)
Pension obligations	(6,848)	(3,602)	(7,296)
General supplies	(10,332)	(6,391)	(4,451)
Outsourced services	(360,190)	(273,470)	(258,287)
Electricity	(1,333)	(1,154)	(762)
General expenses	(122,503)	(102,213)	(94,112)
Depreciation and amortization	(31,649)	(17,272)	(15,664)
	<u>(803,404)</u>	<u>(693,480)</u>	<u>(686,012)</u>
Bad debt expense, net of recoveries (Note 9 (c))	(128,099)	(166,727)	(82,681)
<b>Administrative expenses</b>			
Salaries, payroll charges and benefits	(278,507)	(254,284)	(229,752)
Pension obligations	(138,207)	(141,758)	(171,830)
General supplies	(3,216)	(4,881)	(5,675)
Outsourced services	(197,357)	(204,728)	(183,746)
Electricity	(1,436)	(1,363)	(965)
General expenses	(407,250)	(232,288)	(302,113)
Depreciation and amortization	(88,666)	(98,825)	(112,468)
Tax expenses	(73,205)	(58,750)	(92,441)
	<u>(1,187,844)</u>	<u>(996,877)</u>	<u>(1,098,990)</u>
<b>Operating costs and expenses</b>			
Salaries, payroll charges and benefits	(2,487,321)	(2,503,201)	(2,376,763)
Pension obligations	(194,619)	(170,426)	(227,507)
Construction costs (Note 25)	(2,881,394)	(2,739,657)	(3,080,542)
General supplies	(272,949)	(249,306)	(173,838)
Treatment supplies	(310,380)	(265,146)	(287,592)
Outsourced services	(1,808,437)	(1,474,675)	(1,299,096)
Electricity	(1,142,929)	(959,357)	(796,079)
General expenses	(1,177,557)	(963,754)	(928,210)
Depreciation and amortization	(1,780,094)	(1,392,541)	(1,301,897)
Tax expenses	(73,205)	(58,750)	(92,441)
Bad debt expense, net of recoveries (Note 9 (c))	(128,099)	(166,727)	(82,681)
	<u>(12,256,984)</u>	<u>(10,943,540)</u>	<u>(10,646,646)</u>



# Companhia de Saneamento Básico do Estado de São Paulo - SABESP

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### 29 Financial Income (Expenses)

	2019	2018	2017
Financial expenses			
Interest and charges on borrowings and financing – local currency	(331,367)	(332,149)	(289,780)
Interest and charges on borrowings and financing – foreign currency	(165,421)	(171,686)	(119,100)
Other financial expenses (i)	(344,508)	(187,563)	(97,533)
Income tax over international remittance	(17,650)	(19,779)	(17,901)
Inflation adjustment on borrowings and financing (ii)	(44,802)	(66,183)	(62,787)
Other inflation adjustments (i)	(107,584)	(45,193)	(50,941)
Interest and inflation adjustments on provisions (iii)	(162,093)	14,586	(50,238)
Total financial expenses	<u>(1,173,425)</u>	<u>(807,967)</u>	<u>(688,280)</u>
Financial income			
Inflation adjustment gains (iv)	91,180	105,952	89,010
Income on short-term investments (v)	151,622	187,094	195,992
Interest income (vi)	150,054	175,939	57,166
Cofins and Pasep	(20,028)	(22,693)	(16,366)
Other	14	10	442
Total financial income	<u>372,842</u>	<u>446,302</u>	<u>326,244</u>
Financial income (expenses), net before exchange rate changes	<u>(800,583)</u>	<u>(361,665)</u>	<u>(362,036)</u>
Exchange gains (losses)			
Exchange rate changes on borrowings and financing (vii)	(233,960)	(915,897)	(96,300)
Exchange rate changes on assets	863	13,235	336
Other exchange rate changes	(1)	(9)	(54)
Exchange rate changes, net	<u>(233,098)</u>	<u>(902,671)</u>	<u>(96,018)</u>
Financial income (expenses), net	<u>(1,033,681)</u>	<u>(1,264,336)</u>	<u>(458,054)</u>

- (i) Increase in recognition of interest on Public-Private Partnership (PPP) contracts, due to the beginning of the the service provision of São Lourenço Production System (SPSL), on July 10, 2018.
- (ii) Decrease of R\$ 21.4 million in monetary variation derives mainly on local borrowings and financing, mainly in debentures, due to the amortization of the 15<sup>th</sup> and 17<sup>th</sup> debentures issue and the decrease of the TJLP from 6.98% in 2018 to 5.57% in 2019.
- (iii) Lawsuits accrued interest and monetary restatement due to inflation in Brazil. The increase in interest and monetary restatement on lawsuits is due to a change in the expectations regarding unfavorable outcome of the court cases against the Company.
- (iv) The monetary variations gains decreased mainly due to the higher restatement on escrow deposits.
- (v) The decrease is a result of the reduction in the CDI rate, of 6.42% p.a. in 2019 and 5.96% p.a. in 2018. The average balance applied in 2019 was R\$ 2.199 billion, compared to R\$ 2.972 billion in 2018.
- (vi) The increase in interest income is mainly due to the recognition of interest on installment agreements with customers, in 2018
- (vii) Decrease of R\$ 681.9 million in exchange rate changes on borrowings and financing mainly due to the lower appreciation of the U.S. dolar and the Yen against the Real in 2019 (4.0% and 5.3%, respectively), compared to appreciation presented in 2018 (17.1% and 20.0, respectively).

# Companhia de Saneamento Básico do Estado de São Paulo - SABESP

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### 30 Other operating income (expenses), net

	2019	2018	2017
Other operating income, net	75,667	93,089	75,410
Other operating expenses	(94,415)	(64,498)	(81,089)
Other operating income (expenses), net	(18,748)	28,591	(5,679)

Other operating income is comprised by sale of property, plant and equipment, sale of contracts awarded in public bids, right to sell electricity, indemnities and reimbursement of expenses, fines and collaterals, property leases, reuse water, PURA projects and services, net of Cofins and Pasep.

Other operating expenses consist mainly of derecognition of concessions assets due to obsolescence, discontinued construction works, unproductive wells, projects considered economically unfeasible, losses on property, plant and equipment and exceeding cost of electricity sold.

### 31 Commitments

The Company has agreements to manage and maintain its activities, as well as agreements to build new projects aiming at achieving the objectives proposed in its target plan. Below, the main unrecorded committed amounts as of December 31, 2019:

	1 year	1-3 years	3-5 years	More than 5 years	Total
Contractual obligations – Expenses	944,045	2,787,402	1,188,276	3,006,756	7,926,479
Contractual obligations – Investments	2,247,765	2,015,873	745,603	36,611	5,045,852
Total	3,191,810	4,803,275	1,933,879	3,043,367	12,972,331

The main commitment refers to the São Lourenço PPP. See Note 14 (g).

### 32 Supplemental cash flow information

	2019	2018	2017
Total additions of contract assets (Note 13)	3,532,283	3,188,943	-
Total additions to intangible assets (Note 14 (b))	1,788,907	1,144,728	3,490,298
Items not affecting cash (see breakdown below)	(2,125,943)	(2,201,112)	(1,532,518)
Total additions to intangible assets as per statement of cash flows	3,195,247	2,132,559	1,957,780
Investment and financing operations affecting intangible assets but not cash:			
Interest capitalized in the year (Note 14 (d))	233,251	488,502	649,048
Contractors payable	252,675	297,872	213,340
Program contract commitments	35,817	149,974	95,126
Public Private Partnership - São Lourenço PPP (Note 14 (g))	10,591	273,737	501,591
Leases	-	-	3,078
Performance agreements	78,296	-	-
Right of use	113,233	-	-
Construction margin (Note 25)	65,172	63,013	70,335
Agreement with the Municipality of Santo André (Note 9 (a))	1,336,908	-	-
Agreement with the municipality of Guarulhos (Note 9 (a))	-	928,014	-
Total	2,125,943	2,201,112	1,532,518

# Companhia de Saneamento Básico do Estado de São Paulo - SABESP

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### 33 Events after the reporting period

- **25<sup>th</sup> Issuance of Debentures**

On February 20, 2020, the Board of Directors approved the 25th issuance simple, unsecured, non-convertible debentures, in up to three series, for public distribution, with restricted placement efforts, pursuant to CVM Instruction nº 476, in the total amount of R \$ 1,000,000,000.00. The amount of Debentures to be allocated in each series of the Offer will occur through the communicating vessels system.

In April 27, 2020, Sabesp carried out the twenty-fifth issuance of debentures of R\$1.45 billion, with a maturity date of October 2021 and bearing interest at a rate of CDI plus 3.30% per year. Considering the uncertainties arising from the coronavirus crisis and its effect on the economy and financial markets, the Company decided to increase the amount issued in R\$ 450 million.

The proceeds from the issuance and offering of the Debentures will be used to the refinance of its financial commitments maturing in 2020 and to replenish the Company's cash position.

- **COVID-19 (Coronavírus)**

The services provided by the Company become even more essential to society in the context of the COVID 19 pandemic. The interruption of water supply by a basic sanitation company may compromise the guidance given by the World Health Organization (WHO) so that everyone maintains good hygiene habits, such as washing your hands correctly and more often.

The Company has implemented several preventive measures so that its employees are not exposed to risky situations, such as: (i) use of home-office practice particularly in the administrative sectors and for all employees over 60; (ii) restriction of national and international travel; (iii) use of remote communication; (iv) anticipation of the vaccination campaign; among others. The Company additionally took all necessary preventive measures so that employees with strategic functions can comply with them without increasing the risk of contamination, ensuring continuity in the provision of essential services.

Some materials used in the treatment of water and sewage are imported and may suffer some type of restriction, however these can be replaced by alternative products in Brazil. Accordingly, there is no expectation of any negative effect on the Company's operations.

On March 20, 2020, SABESP released a Material Fact stating that the Executive Board approved the proposal to exempt customer categories consumption of "Residencial Social" and "Residencial Favela (Shantytown)" from paying water/sewage bills. This measure covers all municipalities operated for a period of 90 days and refer to accounts issued as of April 1, 2020, which must be ratified by the Board of Directors. To preserve the economic and financial sustainability of Company, the impact on revenue may be offset by reduced expenses and budgetary adjustments.

On March 22, 2020, the São Paulo State Government decreed quarantine throughout the State, restricting activities in order to avoid the accelerated spread of COVID 19. In this sense, the Company's revenues in the commercial and public categories may have a negative impact in future reporting periods due to the reduction in the level of activity. On the other hand, this same measure may increase consumption in the residential category. The trend in the industrial category is not clear, since there are sectors that will increase production and, therefore, increase the demand for water, while others will have to reduce it.

# **Companhia de Saneamento Básico do Estado de São Paulo - SABESP**

## **Notes to the Financial Statements**

**Years ended December 31, 2019, 2018 and 2017**

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In order to cope with the constant investments in infrastructure, the Company annually uses third party capital, as a complement to its own resources. The impacts of COVID-19 in attracting borrowings and financing is still uncertain, however the Company has sufficient resources of funds to fulfill its short and medium term strategy for the next 12 months.

At this time, it is not possible to assess all the impacts that COVID-19 may have in the future, for this reason this topic is being assessed daily by the Company's management.

# Companhia de Saneamento Básico do Estado de São Paulo - SABESP

## Notes to the Financial Statements

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On March 30, 2020, the Board of Directors ratified the exemption approved by the Executive Board On March 19, 2020 that deals with the proposal to exempt customer categories consumption of "Residencial Social" and "Residencial Favela (Shantytown)", registered on March 19, 2020, from paying water/sewage bills for 90 days for bills issued as of April 1, 2020, covering all municipalities operated by the Company.

### • **Tariff Adjustment Index**

On April 9, 2020, the São Paulo State Sanitation and Energy Regulatory Agency ("ARSESP") published Resolutions nº 980 and nº 979.

Resolution nº 980 disclosing a tariff adjustment index of 2.4924% for the Company, broken down as follows:

- IPCA variation of 3.3032% in the period;
- Efficiency Factor (X Factor) of 0.6920%; and
- Quality factor (Q Factor) of -0.1188%.

However, considering Official Letter SIMA/GAB/370/2020, of the State Secretariat for Infrastructure and Environment, which requests ARSESP to evaluate the possibility of postponing the tariff adjustment for 90 days, further to Decree 64,879/2020, recognizing the state of public calamity resulting from the COVID-19 pandemic, ARSESP decided:

- To postpone the publication of the new tariff tables, resulting from the annual tariff adjustment to June 10, 2020;
- The adjusted tariff tables, including the tables of the municipalities of Iperó, Pereiras, Santa Branca and Santa Isabel, will be published by June 10, 2020 and will be applied as of thirty days from their publication, pursuant to Law 11,445/2007;
- The compensatory adjustments for the postponement of the application of the annual tariff adjustment will be calculated until June 10, 2020; and
- The amount to be compensated will be distributed in the tariffs in the period between July 10, 2020 and May 10, 2021, when the results of the Third Ordinary Tariff Revision will be applied.

Resolution No. 979 informs that ARSESP will evaluate the economic-financial balance of the provision of services in order to restore it in due course, if necessary, as a result of the impact of the exemption from tariffs on water / sewage bills of consumers in the "Residencial Social" and "Residencial Favela (Shantytown)" categories consumption, registered on 03/19/2020 for 90 days for accounts issued as of 04/01/2020 and which will cover all municipalities operated by the Company.

### • **Conversion from Dollars to Reais of the debt contracted with the Inter American Development Bank (IDB)**

On April 28, 2020, the Company carried out the conversion from Dollars to Reais of the debt contracted with the Inter American Development Bank (IDB) in the amount of US\$ 494,616,801.20, corresponding to the debt balance of the 2202 / OC-BR loan related to the Rio Tietê Stage III Depollution Program. The details are:

- Date: Executed, April 27, 2020 / effective, May 5, 2020
- Expiration: 3 September 2035
- Amortization: Semiannual installments
- Total amount:
  - From: US\$ 494,616,801.20
  - To: R\$ 2,810,907,281.22
- Interest rate:
  - From: Dollar - Libor 3 months + 0.39% per year (\*)
  - For: Reais – DI + 0.06% per year (\*)

(\*) On this rate, the variable margin for loans from IDB Ordinary Capital is added. This rate is periodically determined by the bank and today is at 80 bps

**DESCRIPTION OF SECURITIES  
REGISTERED UNDER SECTION 12 OF THE EXCHANGE ACT**

As of December 31, 2019, Companhia de Saneamento Básico do Estado de São Paulo – SABESP (“we,” “us,” and “our”) had the following series of securities registered pursuant to Section 12(b) of the Exchange Act:

<b>Title of each class</b>	<b>Trading Symbol(s)</b>	<b>Name of each exchange on which registered</b>
Common Shares, without par value	Not traded	New York Stock Exchange *
American Depositary Shares, evidenced by American Depositary Receipts, each representing one Common Share	SBS	New York Stock Exchange

\* Shares are not listed for trading, but only in connection with the registration of American Depositary Shares pursuant to the requirements of the New York Stock Exchange.

Capitalized terms used but not defined herein have the meanings given to them in our annual report on Form 20-F for the fiscal year ended December 31, 2019.

## COMMON SHARES, WITHOUT PAR VALUE

### General

Set out below is certain information concerning our authorized and issued share capital and a brief summary of certain significant provisions of our bylaws and Brazilian corporate law. This description does not purport to be complete and is qualified by reference to our bylaws (an English translation of which we have filed with the SEC) and to Brazilian corporate law.

A copy of our bylaws is attached to our annual report on Form 20-F as “Exhibit 1.1— Bylaws of the Registrant (English translation) (incorporated by reference to the Form 6-K filed on December 09, 2019)”. We encourage you to read our bylaws and the applicable sections of our annual report for additional information.

### Share Capital

Our capital stock is only composed of common shares, all without par value. As of December 31, 2019, our share capital was represented by 683,609,869 common shares. Our common shares are publicly traded in Brazil on the B3, under the ticker symbol SBSP3.

The State of São Paulo holds the majority of our common shares. See “Item 7.A. Major Shareholders and Related Party Transactions—Major Shareholder” of our annual report on Form 20-F.

### Rights, preferences and restrictions attaching to each class of shares

Each common share entitles the holder thereof to one vote at our annual or special shareholders’ meetings. According to Brazilian Corporate Law and CVM regulations, our shareholders’ meetings must be called by publication of a notice in the *Diário Oficial do Estado de São Paulo*, the official government publication of the State of São Paulo, and in a newspaper of general circulation in our principal place of business (in our case, the publication “*Valor Econômico*”), currently the city of São Paulo, at least fifteen days prior to the meeting. The quorum to hold shareholders’ meetings on first call requires the attendance of shareholders, either in person or by proxy, representing at least 25.0% of the shares entitled to vote and, on second call, the meetings can be held with the attendance of shareholders, also either in person or by proxy, representing any number of shares entitled to vote.

Under Brazilian Corporate Law, our common shares are entitled to dividends or other distributions made in respect of our common shares in proportion to their share of the amount available for the dividend or distribution. See “Item 8A. Financial Statements and Other Financial Information—Dividends and Dividend Policy” of our annual report on Form 20-F for a more complete description of payment of dividends and other distributions on our common shares. In addition, upon any liquidation of our company, our common shares are entitled to our remaining capital after paying our creditors in proportion to their ownership interest in us.

In principle, a change in shareholder rights, such as the reduction of the compulsory minimum dividend, is subject to a favorable vote of the shareholders representing at least one half of our voting shares. Under certain circumstances that may result in a change in shareholder rights, such as the creation of preferred shares, Brazilian Corporate Law requires the approval of a majority of the shareholders who would be adversely affected by the change attending a special meeting called for such reason. It should be emphasized, however, that our bylaws expressly prevent us from issuing preferred shares. Brazilian Corporate Law specifies other circumstances where a dissenting shareholder may also have appraisal rights.

According to Brazilian Corporate Law, neither a company’s bylaws nor actions taken at a general meeting of shareholders may deprive a shareholder of certain rights, such as:

- the right to participate in the distribution of profits;
- the right to participate equally and ratably in any remaining residual assets in the event of liquidation of the company;
- the right to supervise the management of the corporate business as specified in Brazilian Corporate Law;
- the right to preemptive rights in the event of a subscription of shares, debentures convertible into shares or subscription bonuses (except in some specific circumstances under Brazilian law); and
- the right to withdraw from the company in the cases specified in Brazilian Corporate Law.

Pursuant to Brazilian Corporate Law and our bylaws, each of our common shares carries the right to one vote at our shareholders' meetings. We may not restrain or deny that right without the consent of the holders of a majority of the shares affected.

Neither Brazilian Corporate Law nor our bylaws expressly address:

- staggered terms for directors;
- cumulative voting, except as described below; or
- measures that could prevent a takeover attempt.

However, under the laws of the State of São Paulo, the State is required to own at least a majority of our outstanding common shares.

According to Brazilian Corporate Law and its regulations, shareholders representing at least 10 percent of our capital, may request that a multiple voting procedure be adopted to entitle each share to as many votes as there are board members and to give each shareholder the right to vote cumulatively for only one candidate or to distribute their votes among several candidates. Pursuant to Brazilian Corporate Law, shareholder action must be taken at a shareholders meeting, duly called for and not by written consent. Pursuant to regulations promulgated by the CVM, the 10% threshold requirement for the exercise of multiple voting procedures may be reduced depending on the amount of capital stock of the company. Considering our current capital stock, shareholders representing 5% of our voting capital may demand the adoption of a multiple voting procedure.

In addition, shareholders owning at least 15.0% of the capital may request the right to elect, separately a member of the Board of Directors. Nonetheless, as per decisions by CVM, in a company that has issued only common shares, such amount may be reduced to 10.0%. Furthermore, pursuant to Brazilian corporate law, non-controlling holders of common shares issued by a mixed capital company (*sociedade de economia mista*), irrespective of its interest percentage in the company's voting capital, may also have exercise the right of elect separately a member of the Board of Directors and an alternate, if they are not entitled to elect more members by means of the multiple voting procedure.

## **Dividends**

The Brazilian corporate law and our bylaws prescribe that we must distribute to our shareholders in the form of dividends or interest on shareholders' equity an annual amount equal to not less than 25% of the of the fiscal year's net income, after the deductions established or authorized by law, unless the Board of Directors advises our shareholders at our general shareholders' meeting that payment of the mandatory dividend for the preceding year is inadvisable in light of our financial condition. The Fiscal Council must review any such determination and report it to the shareholders. The shareholders must also approve the recommendation of the Board of Directors with respect to any required distribution.

By law, we are required to hold an annual shareholders' meeting by April 30 of each year at which an annual dividend may be declared (exceptionally in 2020, due to the COVID-19 pandemic, this deadline was postponed by seven months counted from the closing date of the prior fiscal year (2019), as provided in Provisional Measure No. 931 of March 30, 2020). Under Brazilian Corporate Law, dividends are generally required to be paid to the holder of record on a dividend declaration date within 60 days following the date the dividend was declared, unless a shareholders' resolution sets forth another date of payment, which, in either case, the payment of the dividends must occur prior to the end of the fiscal year in which the dividend was declared. A shareholder has a three-year period from the dividend payment date to claim dividends (or payments of interest on shareholders' equity) in respect of its shares, after which we will have no liability for such payments.

## **Pre-emptive rights**

Each of our shareholders has a general preemptive right to subscribe for shares or securities convertible into shares in any capital increase, in proportion to his or her ownership interest in us, except in the event of the grant and exercise of any option to acquire shares of our capital stock. The preemptive rights are valid for a 30-day period from the publication of the announcement of the capital increase. Shareholders are also entitled to sell this preemptive right to third parties. Under Brazilian Corporate Law, we may amend our bylaws to eliminate preemptive rights or to reduce the exercise period in connection with a public offering of shares or an exchange offer made to acquire another company.

In the event of a capital increase by means of the issuance of new shares, holders of ADSs, or of common shares, would, except under circumstances described above, have preemptive rights to subscribe for any class of our newly issued shares. However, an ADS holder may not be able to exercise the preemptive rights relating to the common shares underlying his or her ADSs unless a registration statement under the Securities Act is effective with respect to those rights or an exemption from the registration requirements of the Securities Act is available. See "Item 3.D. Risk Factors—Risks Relating to Our Common



Shares and ADSs—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.”

## **Memorandum and Articles of Association**

The following is a summary of the material terms of our common shares, including related provisions of our bylaws and Brazilian Corporate Law. This description is qualified by reference to our bylaws and to Brazilian law.

### **Corporate Purposes**

We are a mixed capital company (*sociedade de economia mista*) of unlimited duration, incorporated on September 6, 1973, with limited liability, duly organized and operating under Brazilian Corporate Law. As set forth in Article 2 of our bylaws, our corporate purpose is to render basic sanitation services, aimed at the universalization of basic sanitation in the state of São Paulo without harming our long-term financial sustainability. Our activities comprise water supply, sanitary sewage services, urban rainwater management and drainage services, urban cleaning services, solid waste management services and related activities, including the planning, operation, maintenance and commercialization of energy, and the commercialization of services, products, benefits and rights that directly or indirectly arise from our assets, operations and activities. We are allowed to act, in a subsidiary form, in other Brazilian locations and abroad.

### **Directors’ Powers**

In addition to the general provisions of Brazilian law, our Board of Director’s Internal Charter contains the specific provisions set out below regarding a director’s power to vote on a proposal, arrangement or contract in which that director has a material interest. Under Brazilian Corporate Law, a director or an executive officer is prohibited from voting in any meeting or with respect to any transaction in which that director or executive officer has a conflict of interest with the company and must disclose the nature and extent of the conflicting interest to be recorded in the minutes of the meeting. In any case, a director or an executive officer may not transact any business with the company, including any borrowing, except on reasonable or fair terms and conditions that are identical to the terms and conditions prevailing in the market or offered by third parties.

According to our Board of Director’s Internal Charter, when a matter involves a conflict of interest with ours or a particular interest in the matter, each member of the Board of Directors shall (i) declare his impediment in a timely manner, as soon as he becomes aware of the fact, (ii) refrain from intervening in the matter in discussion or deliberation, (iii) include the fact in the minutes of the meeting, and (iv) abstain from discussions and deliberations.

Under our bylaws, our shareholders are responsible for establishing the compensation we pay to the members of our board of directors, members of the fiscal committee and the executive officers.

Pursuant to Brazilian Corporate Law, each member of our board of executive officers must be a resident of Brazil.

See also “Item 6.A. Directors and Senior Management” of our annual report on Form 20-F.

### **Liquidation Rights**

Under Brazilian corporate law, the approval of shareholders representing at least one-half of the issued and outstanding voting shares is required for dissolving or liquidating us.

### **Redemption Rights**

Our common shares are not redeemable, except that a dissenting shareholder is entitled under Brazilian Corporate Law to obtain redemption upon a decision made at a shareholders’ meeting approving any of the items described above in “Exhibit 2.1. Common Shares, Without Par Value—Rights, preferences and restrictions attaching to each class of shares” to our annual report on Form 20-F, as well as:

- any decision to transfer all of our shares to another company in order to make us a wholly owned subsidiary of such company, a stock merger;
- any decision to approve the acquisition of control of another company at a price which exceeds certain limits set forth in Brazilian corporate law; or
- in the event that the entity resulting from (i) a merger, (ii) a stock merger as described above or (iii) a spin-off that we conduct fails to become a listed company within 120 days of the general shareholders’ meeting at which such decision was taken.

The right of redemption triggered by shareholder decisions to merge, consolidate or to participate in a centralized group of companies may only be exercised if our shares do not satisfy certain tests of liquidity, among others, at the time of the shareholder resolution. The right of redemption lapses 30 days after publication of the minutes of the relevant general shareholders' meeting.

We would be entitled to reconsider any action giving rise to redemption rights within 10 days following the expiration of such rights if the redemption of shares of dissenting shareholders would jeopardize our financial stability. Any redemption pursuant to Brazilian corporate law would be made at no less than the book value per share, determined on the basis of the last balance sheet approved by the shareholders; provided that if the general shareholders' meeting giving rise to redemption rights occurred more than 60 days after the date of the last approved balance sheet, a shareholder would be entitled to demand that his or her shares be valued on the basis of a new balance sheet dated within 60 days of such general shareholders' meeting.

### **Changes to Our Share Capital**

Under Brazilian Corporate Law, the approval of shareholders representing at least one-half of the issued and outstanding voting shares is required for creating a new class of preferred shares with privileges than the common shares. Pursuant to Brazilian Corporate Law, shareholder action must be taken at a shareholders meeting, duly called for and not by written consent.

### **Restrictions on Non-Brazilian Holders**

Under Brazilian corporate law, there are no restrictions on ownership of our capital stock by individuals or legal entities domiciled outside Brazil, including the rights of such non-resident or foreign shareholders to hold or exercise voting rights.

However, the right to convert dividend payments and proceeds from the sale of common shares into foreign currency and to remit such amounts outside Brazil is subject to restrictions under foreign investment legislation, which generally requires, among other things, that the relevant investment be registered with the Central Bank of Brazil. These restrictions on the remittance of foreign capital abroad could hinder or prevent the depository bank and its agents for the common shares represented by ADSs from converting dividends, distributions or the proceeds from any sale of common shares or rights, as the case may be, into U.S. dollars and remitting such amounts abroad. Delays in, or refusal to grant, any required government approval for conversions of Brazilian currency payments and remittances abroad of amounts owed to holders of ADSs could adversely affect holders of ADRs.

Under CMN Resolution No. 4,373 of 2014 ("Resolution 4,373"), foreign investors, defined to include individuals, legal entities, mutual funds and other collective investment entities, domiciled or headquartered outside Brazil, may invest in almost all financial assets and engage in almost all transactions available in the Brazilian financial and capital markets, provided that they:

- appoint at least one representative in Brazil, with powers to perform actions relating to its investment,
- complete the appropriate foreign investor registration form,
- register as a foreign investor with the CVM, and register its foreign investment with the Central Bank of Brazil, and
- appoint a custodian, duly licensed by the Central Bank of Brazil, if the Brazilian representative in the first bullet is not a financial institution.

Resolution 4,373 specifies the manner of custody and the permitted means for trading securities held by foreign investors under the resolution. The offshore transfer or assignment of securities or other financial assets held by foreign investors pursuant to Resolution 4,373 is prohibited, except for transfers resulting from a corporate reorganization, or occurring upon the death of an investor by operation of law or will.

### **Form and Transfer of Shares**

Our common shares are in book-entry form registered in the name of each shareholder. The transfer of such shares is made under Brazilian corporate law, which provides that a transfer of shares is effected by our transfer agent, Banco Bradesco S.A., upon presentation of valid share transfer instructions to us by a transferor or its representative. When common shares are acquired or sold on a Brazilian stock exchange, the transfer is effected on the records of our transfer agent by a representative of a brokerage firm or the stock exchange's clearing system. Transfers of shares by a foreign investor are made in the same way and are executed by the investor's local agent, who is also responsible for updating the information relating to the foreign investment furnished to the Central Bank of Brazil.

## **Shareholder Ownership Disclosure**

Pursuant to CVM regulations, a Brazilian public company's (i) direct or indirect controlling shareholders, (ii) shareholders who have elected members of such company's board of directors or fiscal council, as well as (iii) any person or group of persons representing the same interest, in each case that has directly or indirectly acquired or sold an interest that exceeds (either upward or downward) the threshold of 5%, or any multiple thereof, of the total number of shares of any type or class, must disclose such shareholder's or person's share ownership or divestment, immediately after the acquisition or sale, to the CVM and the B3.

**AMERICAN DEPOSITARY SHARES (EVIDENCED  
BY AMERICAN DEPOSITARY RECEIPTS), EACH  
REPRESENTING ONE COMMON SHARE**

**Depositary**

The Bank of New York Mellon acts as the depositary (“Depositary”), for our American Depositary Shares (“ADSs”), which are evidenced by American depositary receipts (“ADRs”). Each ADS represents one common share deposited with the Custodian (as defined below), as agent of the Depositary, under the amended and restated deposit agreement (“Deposit Agreement”) dated as of May 9, 2002, as amended and restated as of January 22, 2013, between us, the Depositary and any person in whose name ADRs are registered on the books of the Depositary maintained for such purpose, or an owner, and any person holding from time to time those ADSs (“holders”).

The Bank of New York Mellon’s office where the ADRs are administered is located at 101 Barclay Street, New York, N.Y. 10286, United States, or the Corporate Trust Office, and its principal executive office is located at 225 Liberty Street, New York, N.Y. 10286, United States.

**Provisions**

In the United States, our common shares trade in the form of ADSs. Following a ratio change effected on January 24, 2013, each ADS represents one common share of our company. Following a stock split which took place on April 25, 2013, we issued two new ADSs for each ADS currently trading and distributed them to our holders on April 29, 2013. The ADSs are issued by The Bank of New York Mellon, as Depositary, pursuant to the Deposit Agreement. The ADSs commenced trading on the NYSE on May 10, 2002.

Banco Bradesco S.A. located in Brazil acts as custodian (“Custodian”), as the agent of the Depositary for the purposes of the Deposit Agreement.

Holders of our ADSs are not treated as our shareholders and do not have the same rights that our shareholders have. The Depositary will hold the shares that underlie the common share ADSs through the Custodian in accordance with the provisions of the Deposit Agreement. The rights of our ADSs holders are governed by the Deposit Agreement and the ADRs, which are governed by New York law. In contrast, the rights of our shareholders are governed by Brazilian law.

If you become an owner of ADSs, you will become a party to the Deposit Agreement and therefore will be bound to its terms and to the terms of any ADR that evidences your ADSs. The Deposit Agreement and the ADRs specify our rights and obligations as well as your rights and obligations as owner of ADSs and those of the Depositary. As an ADS holder you appoint the Depositary to act on your behalf in certain circumstances.

We are providing you with a summary of the material terms of the ADSs, the Depositary Agreement and of your material rights as an owner of an ADS. We urge you to review the Deposit Agreement in its entirety, which sets forth the full rights of owners and holders and the rights and duties of the Depositary in respect of the common shares deposited thereunder. Copies of the Deposit Agreement are on file at the Depositary’s Corporate Trust Office.

**Dividends and Distributions**

Whenever the Depositary receives any cash dividend or other cash distribution on any deposited securities, the Depositary will, after conversion to U.S. dollars, if applicable under the Depositary Agreement, distribute the amount received (net of the fees and expenses of the Depositary as provided in the Deposit Agreement, if applicable) to the owners of ADRs entitled thereto as of the recorded date. Provided, however, that in the event that we or the Depositary are required to withhold and do withhold from such cash dividend or such other cash distribution in respect of any deposited securities an amount on account of applicable taxes, the amount distributed to the owners of the ADRs evidencing ADS representing such deposited securities will be reduced accordingly.

Subject to the provisions of the Deposit Agreement, whenever the Depositary receives any distribution other than certain distributions further described in Sections 4.1, 4.3 or 4.4 of the Deposit Agreement, the Depositary will, as promptly as practicable after consultation with us, cause the securities or property received by it to be distributed to the Owners of ADRs entitled thereto, after deduction or upon payment of any fees and expenses of the Depositary or any applicable taxes or other governmental charges, in any manner that the Depositary may reasonably deem equitable and practicable for accomplishing such distribution. Provided, however, that if in the opinion of the Depositary such distribution cannot be made proportionately among the owners of ADRs entitled thereto, or if for any other reason the Depositary deems such distribution not to be feasible, the Depositary may adopt such method as it may reasonably deem equitable and practicable for the purpose of effecting such distribution, including, but not limited to, the public or private sale of the securities or property thus received, or any part thereof, and the net proceeds of any such sale will be distributed by the Depositary to the Owners entitled thereto as in the case of a distribution received in cash; provided that any unsold balance of such securities or property is distributed by the Depositary to the Holders entitled thereto, if such distribution is feasible without withholding for or on account of any taxes or other governmental charges and without registration under the Securities Act, in accordance with such equitable and practicable methods as the Depositary may have adopted; provided, further, that no distribution to Holders pursuant to Section 4.2 of the Deposit Agreement is unreasonably delayed by any action of the Depositary.

If any distribution upon any deposited securities consists of a dividend in, or free distribution of, common shares, the Depositary may, and will if we request, distribute to the owners of outstanding ADRs entitled thereto, additional ADRs evidencing an aggregate number of ADSs representing the amount of common shares received as such dividend or free distribution, subject to the terms and conditions of the Deposit Agreement with respect to the deposit of common shares and the issuance of ADSs evidenced by ADRs, including the withholding of any tax or other governmental charge as provided in Section 4.11 of the Deposit Agreement and the payment of the fees of the Depositary as provided in Section 5.9 of the Deposit Agreement. In lieu of delivering ADRs for fractional ADSs in any such case, the Depositary will sell the amount of common shares represented by the aggregate of such fractions and distribute the net proceeds, all in the manner and subject to the conditions set forth in the Deposit Agreement. If additional ADRs are not so distributed, each ADS will thenceforth also represent the additional common shares distributed upon the deposited securities represented thereby.

In the event that the Depositary determines that any distribution in property (including common shares and rights to subscribe therefor) is subject to any tax or other governmental charge which the Depositary is obligated to withhold, the Depositary may by public or private sale dispose of all or a portion of such property (including common shares and rights to subscribe therefor) in such amounts and in such manner as the Depositary deems necessary and practicable to pay any such taxes or charges and the Depositary will distribute the net proceeds of any such sale after deduction of such taxes or charges to the owners of ADRs entitled thereto.

The owners shall indemnify the Depositary, us, the Custodian and any respective directors, employees, agents and affiliates against, and hold each of them harmless from, any claims by any governmental authority with respect to taxes, additions to tax, penalties or interest arising out of any refund of taxes, reduced rate of withholding at source or other tax benefit obtained.

### **Withdrawal and Surrender of Deposited Securities**

Upon surrender at the deposited securities of the Depositary of an ADR for the purpose of withdrawal of the deposited securities represented by the ADS evidenced by such ADR, and upon payment of the fee of the Depositary for the surrender of ADR as provided in the Deposit Agreement and payment of all taxes and governmental charges payable in connection with such surrender and withdrawal of the deposited securities, and subject to the terms and conditions of the Deposit Agreement, the owner of such ADR will be entitled to delivery, to him or her or upon his or her order, of the amount of deposited securities at the time represented by the ADS evidenced by such ADRs. Delivery of such deposited securities may be made by the delivery of (a) deposited securities in the name of such owner or as ordered by him or her or by certificates properly endorsed or accompanied by proper instruments of transfer to such owner or as ordered by him or her and (b) any other securities, property and cash to which such owner is then entitled in respect of such ADRs to such owner or as ordered by him. Such delivery will be made, as hereinafter provided, without unreasonable delay.

An ADR surrendered for such purposes may be required by the Depositary to be properly endorsed in blank or accompanied by proper instruments of transfer in blank, and if the Depositary so requires, the owner thereof will execute and deliver to the Depositary a written order directing the Depositary to cause the deposited securities being withdrawn to be delivered to or upon the written order of a person or persons designated in such order. Thereupon the Depositary will direct the Custodian to deliver at the principal office of such Custodian, subject to limitations contained in the ADR and to the other terms and conditions of the Deposit Agreement, to or upon the written order of the person or persons designated in the order delivered to the Depositary as above provided, the amount of deposited securities represented by the ADRs evidenced by such ADR, except that the Depositary may make delivery to such person or persons at the principal trust office of the Depositary of any dividends or distributions with respect to the deposited securities represented by the ADSs evidenced by such ADRs, or of any proceeds of sale of any dividends, distributions or rights, which may at the time be held by the Depositary.

At the request, risk and expense of any Owner so surrendering an ADR, and for the account of such Owner, the Depositary will direct the Custodian to forward any cash or other property (other than rights) comprising, and forward a certificate or certificates, if applicable, and other proper documents of title for, the deposited securities represented by the ADS evidenced by such ADR to the Depositary for delivery at the Corporate Trust Office of the Depositary. Such direction is to be given by letter or, at the request, risk and expense of such owner, by cable, telex or facsimile transmission.

All ADRs surrendered to the Depositary will be cancelled by the Depositary. The Depositary is authorized to destroy ADRs so cancelled.

## **Record Date**

Whenever any cash dividend or other cash distribution becomes payable or any distribution other than cash is to be made, or whenever rights are to be issued with respect to the deposited securities, or whenever for any reason the Depositary causes a change in the number of common shares that are represented by each ADS, the Depositary will fix a record date (which record date, if not the same as the record date determined by us, shall be as close to practicable to the date corresponding to the record date fixed by us in respect of the common shares or other deposited securities) (a) for the determination of the owners of Receipts who shall be entitled to receive such dividend, distribution or rights or the net proceeds of the sale thereof or (b) on or after which each ADS will represent the changed number of common shares, subject to the provisions of the Deposit Agreement. Whenever the Depositary receives notice of any meeting of or solicitation of consents or proxies from holders of common shares or other deposited securities, the Depositary has to fix, after consultation with us, a record date for the determination of owners who are entitled to give instructions for the exercise of voting rights at any such meeting.

## **Voting Rights**

Upon receipt of notice of any meeting of holders of common shares or other deposited securities, if requested in writing by us, the Depositary will, as soon as practicable thereafter, mail to the owners of ADRs a notice, the form of which notice will be in the sole discretion of the Depositary, which will contain (a) such information as is contained in such notice of meeting, (b) a statement that the owners of ADRs as of the close of business on a specified record date will be entitled, subject to any applicable provision of Brazilian law and of our *estatuto social* (By-laws), to instruct the Depositary as to the exercise of the voting rights, if any, pertaining to the amount of common shares or other deposited securities represented by their respective ADS and (c) a statement as to the manner in which such instructions may be given, including an express indication that such instructions may be given or deemed given in accordance with the last sentence of this paragraph if no instruction is received, to the Depositary to give a discretionary proxy to a person designated by us.

Upon the written request of an owner of an ADR on such record date, received on or before the date established by the Depositary for such purpose, or the Instruction Date, the Depositary will endeavour, in so far as practicable and permitted under Brazilian law and our *estatuto social* (By-laws) to vote or cause to be voted the amount of common shares and/or other deposited securities represented by the ADSs evidenced by such ADR in accordance with the instructions set forth in such request. The Depositary will not vote or attempt to exercise the right to vote that attaches to the common shares or other deposited securities, other than in accordance with such instructions or deemed instructions. If no instructions are received by the Depositary from any owner with respect to any of the deposited securities represented by the ADS evidenced by such Owner's ADRs on or before the date established by the Depositary for such purpose, the Depositary will deem such Owner to have instructed the Depositary to give a discretionary proxy to a person designated by us with respect to such deposited securities and the Depositary will give a discretionary proxy to a person designated by us to vote such deposited securities, provided, that no such instruction will be deemed given and no such discretionary proxy will be given with respect to any matter as to which we inform the Depositary (and we agree to provide such information as promptly as practicable in writing) that (x) we do not wish such proxy given, (y) substantial opposition exists or (z) such matter materially and adversely affects the rights of holders of common shares.

There can be no assurance that Owners generally or any Owner in particular will receive the notice described in the preceding paragraph sufficiently prior to the Instruction Date to ensure that the Depositary will vote the common shares or deposited securities in accordance with the provisions set forth in the preceding paragraph.

In order to give Owners a reasonable opportunity to instruct the Depositary as to the exercise of voting rights relating to deposited securities, if we will request the Depositary to act under Section 4.7 of the Deposit Agreement, we will give the Depositary notice of any such meeting and details concerning the matters to be voted upon not less than 30 days prior to the meeting date.

Owners of ADS will not be entitled to attend shareholders' meetings, but will be entitled to instruct the Depositary in the manner set out above as to the manner of voting the common shares represented by ADS at any shareholders' meeting.

## **Reports: Inspection of Transfer Books**

We are subject to the periodic reporting requirements of the United States Securities Exchange Act of 1934 and, accordingly, file certain reports with the United States Securities and Exchange Commission (the "SEC"). Such reports and communications will be available for inspection and copying through the SEC's EDGAR system or at the public reference facilities maintained by the SEC in Washington, D.C.

The Depositary will make available for inspection by owners of ADRs at its Corporate Trust Office any reports and communications, including any proxy soliciting material, received from us which are both (a) received by the Depositary as the holder of the deposited securities and (b) made generally available to the holders of such deposited securities by us. The Depositary will also, upon written request, as promptly as practicable, send to the owners of ADRs copies of such reports furnished by us pursuant to the Deposit Agreement. Any such reports and communications, including any such proxy soliciting material, furnished to the Depositary by us will be furnished in English, to the extent such materials are required to be translated into English pursuant to any regulation of the SEC applicable to us.

The Depository keeps books at its Corporate Trust Office for the registration of ADRs and transfers of ADRs which at all reasonable times will be open for inspection by us and the owners of ADRs, provided that such inspection will not be for the purpose of communicating with owners of ADRs in the interest of a business or object other than the business of us or a matter related to the Deposit Agreement or the ADRs.

### **Liabilities of Owners for Taxes**

If any tax or other governmental charge becomes payable by the Custodian or the Depository with respect to any ADR or any deposited securities represented hereby, such tax or other governmental charge will be payable by the Owner hereof to the Depository. The Depository may refuse to effect any transfer of an ADR or any withdrawal of deposited securities represented by ADSs evidenced by such ADR until such payment is made, and may withhold any dividends or other distributions, or may sell for the account of the owner hereof any part or all of the deposited securities represented by the ADS evidenced by an ADR, and may apply such dividends or other distributions or the proceeds of any such sale in payment of such tax or other governmental charge and the owner hereof will remain liable for any deficiency.

### **Changes Affecting Deposited Securities**

In circumstances where the provisions of Section 4.3 of the Deposit Agreement do not apply, upon any change in nominal value, change in par value, split-up, consolidation or any other reclassification of deposited securities, or upon any recapitalization, reorganization, merger or consolidation, or sale of assets affecting us or to which we are a party, any securities received by the Depository or the Custodian in exchange for or in conversion of or in respect of deposited securities will be treated as new deposited securities under the Deposit Agreement, and ADS will from then on represent, in addition to the existing deposited securities, if any, the new deposited securities so received in exchange or conversion, unless additional ADRs are delivered pursuant to the following sentence. In any such case the Depository may, and will if we request, execute and deliver additional ADRs as in the case of a dividend in common shares, or call for the surrender of outstanding ADRs to be exchanged for new ADRs specifically describing such new deposited securities.

### **Amendment and Termination**

The form of the ADRs and any provisions of the Deposit Agreement may at any time and from time to time be amended by agreement between us and the Depository without the consent of owners and holders in any respect which they may deem necessary or desirable. Any amendment which imposes or increases any fees or charges (other than taxes and other governmental charges, registration fees, cable, telex or facsimile transmission costs, delivery costs or other such expenses), or which otherwise prejudices any substantial existing right of owners of ADRs, will, however, not become effective as to outstanding ADRs until the expiration of thirty days after notice of such amendment has been given to the Owners of outstanding ADRs. Every Owner of an ADR at the time any amendment so becomes effective will be deemed, by continuing to hold such ADR, to consent and agree to such amendment and to be bound by the Deposit Agreement as amended thereby. In no event shall any amendment impair the right of the Owner of any ADR to surrender such ADR and receive therefor the deposited securities represented thereby, except in order to comply with mandatory provisions of applicable law.

Notwithstanding the foregoing, if any governmental body should adopt new laws, rules or regulations which would require an amendment or supplement of the Deposit Agreement to ensure compliance therewith, we and the Depository may amend or supplement the Deposit Agreement at any time in accordance with such changed laws, rules and regulations. Such amendment or supplement to the Deposit Agreement in such circumstances may become effective before a notice of such amendment or supplement is given to owners or within any other period of time as required for compliance with such laws, rules or regulations.

The Depository will at any time at our direction terminate the Deposit Agreement by mailing notice of such termination to the Owners of all ADRs then outstanding at least 90 days prior to the date fixed in such notice for such termination. The Depository may likewise terminate the Deposit Agreement by mailing notice of such termination (30 days prior to the date such termination is to take effect) to us and the Owners of all ADRs then outstanding if at any time 90 days has expired after the Depository has delivered to us a written notice of its election to resign and a successor depository has not been appointed and accepted its appointment as provided in the Deposit Agreement. On and after the date of termination, the owner of an ADR will, upon (a) surrender of such ADR at the Corporate Trust Office of the Depository, (b) payment of the fee of the Depository for the surrender of ADR referred to in Section 2.5 of the Deposit Agreement and (c) payment of any applicable taxes or governmental charges, be entitled to delivery, to him or her or upon his or her order, of the amount of deposited securities represented by the ADSs evidenced by such surrendered ADRs.

If any ADRs remain outstanding after the date of termination, the Depositary thereafter will discontinue the registration of transfers of ADRs, suspend the distribution of dividends to the owners thereof, will not accept deposit of ADSs (and will instruct the Custodian to act accordingly) and will not give any further notices or perform any further acts under the Deposit Agreement, except that the Depositary will continue to collect dividends and other distributions pertaining to deposited securities, will sell rights and other property as provided in the Deposit Agreement, and will continue to deliver deposited securities, together with any dividends or other distributions received with respect thereto and the net proceeds of the sale of any rights or other property, in exchange for ADRs surrendered to the Depositary (after deducting, in each case, the fee of the Depositary for the surrender of a ADR, any expenses for the account of the owner of such ADR in accordance with the terms and conditions of the Deposit Agreement and any applicable taxes or governmental charges).

At any time after the expiration of 4 months from the date of termination, the Depositary may sell at public or private sale the deposited securities then held under the Deposit Agreement and may thereafter hold unsegregated the net proceeds of any such sale, together with any other cash then held by it thereunder, uninvested and without liability for interest, for the pro rata benefit of the Owners of ADRs which have not theretofore been surrendered, such Owners thereupon becoming general creditors of the Depositary with respect to such net proceeds. After making such sale, the Depositary is discharged from all obligations under the Deposit Agreement, except to account for such net proceeds and other cash (after deducting, in each case, the fee of the Depositary for the surrender of an ADR, any expenses for the account of the Owner of such ADR in accordance with the terms and conditions of the Deposit Agreement, and any applicable taxes or governmental charges) and for its obligations under Section 5.8 of the Deposit Agreement. Upon the termination of the Deposit Agreement, we will be discharged from all obligations under the Deposit Agreement except for its obligations to the Depositary under Sections 5.8 and 5.9 of the Deposit Agreement. The obligations of the Depositary under Section 5.8 of the Deposit Agreement will survive the termination of the Deposit Agreement.

### **Limitations on Obligations and Liabilities to ADR Holders**

We assume no obligation nor are we subject to any liability under the Deposit Agreement to any Owner or Holder of ADRs, except that we agree to perform our obligations specifically set forth in the Deposit Agreement without negligence or bad faith.

The Depositary assumes no obligation nor will it be subject to any liability under the Deposit Agreement to any Owner or Holder of any ADR (including, without limitation, liability with respect to the validity or worth of the deposited securities), except that it agrees to perform its obligations specifically set forth in the Deposit Agreement without negligence or bad faith.

Neither we nor the Depositary will be under any obligation to appear in, prosecute or defend any action, suit or other proceeding in respect of any deposited securities or in respect of the ADRs, which in our reasonable opinion may involve it in expense or liability, unless indemnity satisfactory to it against all expense and liability is furnished as often as may be required, and the Custodian will not be under any obligation whatsoever with respect to such proceedings, the responsibility of the Custodian being solely to the Depositary.

Neither we nor the Depositary nor the will be liable for any action or nonaction by it in reliance upon the advice of or information from legal counsel, accountants, any person presenting common shares for deposit, any Owner or any other person believed by it in good faith to be competent to give such advice or information.

The Depositary shall not be liable for any acts or omissions made by a successor depositary whether in connection with a previous act or omission of the Depositary or in connection with any matter arising wholly after the removal or resignation of the Depositary, provided that in connection with the issue out of which such potential liability arises the Depositary performed its obligations without negligence or bad faith while it acted as Depositary.

Neither we nor the Depositary will be liable for the acts or omissions of any securities depository, clearing agency or settlement system in connection with or arising out of book-entry settlement of deposited securities or otherwise.

The Depositary will not be responsible for any failure to carry out any instructions to vote any of the deposited securities, or for the manner in which any such vote is cast or the effect of any such vote, provided that any such action or nonaction is in good faith.

No disclaimer of liability under the Securities Act is intended by any provision of the Deposit Agreement.



## CERTIFICATION

I, Benedito Pinto Ferreira Braga Junior, certify that:

1. I have reviewed this annual report on Form 20-F of Companhia de Saneamento Básico do Estado de São Paulo - Sabesp;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements and other financial information included in this report fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
  - a. designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on evaluation; and
  - d. disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting.
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and to the audit committee of the company's board of directors (or persons performing the equivalent function):
  - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
  - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: April 30, 2020

By: /s/ Benedito Pinto Ferreira Braga Junior  
Name: Benedito Pinto Ferreira Braga Junior  
Title: Chief Executive Officer

## CERTIFICATION

I, Rui de Britto Álvares Affonso, certify that:

1. I have reviewed this annual report on Form 20-F of Companhia de Saneamento Básico do Estado de São Paulo - Sabesp;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements and other financial information included in this report fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
  - a) designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on evaluation; and
  - d) disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting.
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and to the audit committee of the company's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: April 30, 2020

By: /s/ Rui de Britto Álvares Affonso  
Name: Rui de Britto Álvares Affonso  
Title: Chief Financial Officer and Investor Relations Officer

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE U.S. SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Companhia de Saneamento Básico do Estado de São Paulo – Sabesp (the “Company”) on Form 20-F for the fiscal year ended December 31, 2019, as filed with the U.S. Securities and Exchange Commission on the date hereof (the “Report”), I, Benedito Pinto Ferreira Braga Junior, Chief Executive Officer, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the U.S. Sarbanes Oxley Act of 2002, that to the best of my knowledge:

- (i) the Report fully complies with the requirements of section 13(a) or 15(d) of the U.S. Securities Exchange Act of 1934; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 30, 2020

By:     /s/Benedito Pinto Ferreira Braga Junior      
Name: Benedito Pinto Ferreira Braga Junior  
Title: Chief Executive Officer

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE U.S. SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Companhia de Saneamento Básico do Estado de São Paulo – Sabesp (the “Company”) on Form 20-F for the fiscal year ended December 31, 2019, as filed with the U.S. Securities and Exchange Commission on the date hereof (the “Report”), I, Rui de Britto Álvares Affonso, Chief Financial Officer and Investor Relations Officer, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the U.S. Sarbanes Oxley Act of 2002, that to the best of my knowledge:

- (i) the Report fully complies with the requirements of section 13(a) or 15(d) of the U.S. Securities Exchange Act of 1934; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 30, 2020

By: /s/ Rui de Britto Álvares Affonso  
Name: Rui de Britto Álvares Affonso  
Title: Chief Financial Officer and Investor Relations Officer