

LAW 16,525

OF SEPTEMBER 15, 2017

Provides for the corporate restructuring of Companhia de Saneamento Básico do Estado de São Paulo – Sabesp and other measures

THE SÃO PAULO STATE GOVERNOR:

The São Paulo State Legislative Chamber has decreed and I have enacted the following law:

Article 1 - The Executive Branch is authorized to create a corporation governed by Federal Law 6,404, of December 15, 1976, for the purpose of combining basic sanitation assets and other assets whose utilization is related to its principal purpose, and which, for the purposes of this law, is known as Holding Company.

Article 2 - The purpose of the Holding Company is to:

I - control Companhia de Saneamento Básico do Estado de São Paulo – SABESP, pursuant to article 116 of Federal Law 6,404, of December 15, 1976;

II - hold ownership, manage and explore assets of any nature, aiming chiefly at the universalization and efficiency of basic sanitation services in the State of São Paulo;

III - structure and implement fund raising operations to strengthen the capacity to execute strategy and initiatives in the basic sanitation sector;

IV - assist, in any legal form, the State of São Paulo and other federation entities, in the implementation of public policies in the basic sanitation sector;

V - explore other business opportunities within or outside the State of São Paulo, related to the basic sanitation sector, with the support of SABESP;

VI - use any type of contractual and corporate arrangement legally applicable to the achievement of its business purpose, including the creation of wholly-owned subsidiaries, the formation of consortium and holding equity interests in other public or private companies, provided that they are approved by the Board of Directors.

Paragraph 1 - The public interest inherent to the Holding Company, referred to by article 238 of Federal Law 6,404, of December 15, 1976, and article 4, paragraph 1 of Federal Law 13,303, of June 30, 2016, is to promote the universalization of basic sanitation services in the State of São Paulo, expand supply and improve the quality of the related services throughout the national territory.

Paragraph 2 - The State Government will retain ownership of the majority of the Holding Company's common shares in order to indirectly continue to control SABESP; the participation of other minority shareholders, including private and state-owned companies of any level of the government, is therefore authorized.

Paragraph 3 - Private shareholders will be admitted to the Holding Company with the purpose of providing capital and adding value to the company's and SABESP's businesses.

Paragraph 4 - The equity interest addressed by paragraph 3 may involve the attribution of special economic or deliberative rights, by means of statutory provisions or the execution of shareholders' agreement within the scope of the Holding Company or SABESP, in order to strengthen corporate governance, provided that they do not restrict the controlling shareholders' ability to guide the company to achieve the public interest that justified its creation.

Paragraph 5 - The articulation of the State Government with the Holding Company's Management and SABESP, as direct and indirect controlling shareholder, shall comply with the institutional channels provided for in the corporate law.

Paragraph 6 - SABESP's operation, pursuant to item V of this article, will be formalized by own legal instrument and the resources obtained will be allocated to finance priority initiatives and programs in the basic sanitation sector.

Article 3 - The Holding Company's Bylaws shall comply with the following guidelines, pursuant to article 13 of Federal Law 13,303, of June 30, 2016:

I - the company's main purpose shall be the exercise of SABESP's control, pursuant to articles 1 and 2 of this law;

II - the capital stock will be formed by common or preferred shares, including of distinctive classes, and may be increased regardless of statutory amendment, pursuant to article 168 of Federal Law 6,404, of December 15, 1976;

III - the Board of Directors shall be composed of at least seven (7) and at the most eleven (11) members;

IV - the Board of Executive Officers will be composed of three (3) executive officers;

V - the Executive Officers and the Board members shall have coincident terms of office of two (2) years and shall comply with the eligibility requirements of article 17 of Federal Law 13,303, of June 30, 2016;

VI - the Fiscal Council will be permanently installed and shall be composed of three (3) members with term of office of one (1) year; minority shareholders are entitled to appoint the majority of the Fiscal Council members;

VII - the Statutory Audit Committee shall have the attributions provided for by article 24 of Federal Law 13,303, of June 30, 2016 and shall be composed of three (3) members who comply with the independence requirements of article 22, paragraph 1 of the same law, and coordinated by an independent Board member.

Article 4 - The Executive Branch is authorized to pay in its interest in the Holding Company's capital stock by transferring the shares it holds in SABESP, pursuant to the procedures and cautions provided for in Federal Law 6,404, of December 15, 1976.

Paragraph 1 - The Holding Company and SABESP may acquire, for any reason, shares from other state-owned or private companies that have potential synergies with SABESP's activities.

Paragraph 2 - Alternatively or successively, SABESP may incorporate the companies referred to in paragraph 1 or their shares, in order to merge the shareholding bases and make the business operation more efficient.

Paragraph 3 - The Holding Company may increase SABESP's capital for payment in cash or assets, pursuant to Federal Law 6,404, of December 15, 1976, including by means of a public offering of shares in the capital market, provided that the preemptive right in the acquisition by the holder of the majority of shares is exercised.

Article 5 - The Executive Branch is authorized to dispose of or encumber in any legal form the Holding Company's shares, or the respective subscription rights, as well as to provide its corporate restructuring through spin-off, merger or incorporation, involving other state-owned or private companies, provided that the ownership of the majority of the common shares is maintained.

Paragraph 1 - The admission of shareholders in the Holding Company's capital may occur by any legal modality, including through subscription of capital increase, debt conversion, acquisition of shares or subscription rights owned by the State Government, and shall be preceded by an economic evaluation that considers the particularities of the contractual and corporate arrangement, especially with regard to liquidity restrictions.

Paragraph 2 - The selection of shareholders who will join the Holding Company, pursuant to paragraph 1 of this article, shall primarily consider their personal characteristics, depending on the economic potential, business reputation, management ability or knowledge of the basic sanitation sector, and must comply with article 28, paragraphs 3 and 4, of Federal Law 13,303, of June 30, 2016.

Paragraph 3 - The State Government may waive the exercise to the preemptive right in the subscription of shares in future capital increases of the Holding Company, in order to enable the contribution of funds from new shareholders, without the loss of control by the State Government, pursuant to article 2, paragraph 2 of this law.

Paragraph 4 - The State Government shall mandatorily allocate a portion of at least thirty percent (30%) of the amount collected with the disposals of the Holding Company's shares in investments in basic sanitation projects, pursuant to Federal Law 11,445, of January 5, 2007.

Article 6 - The conditions for the admission of private shareholders in the Holding Company will be approved by the Steering Committee of the State Privatization Program, created by State Law 9,361, of July 5, 1996, in compliance with the procedural rules therein, where applicable.

Article 7 - A management agreement shall be entered into between SABESP and the Holding Company on one side, and the Executive Branch, on the other side, through the Finance Department, together with the Sanitation and Water Resources Department, pursuant to article 37, paragraph 8 of the Federal Constitution, in order to strengthen the operational and financial efficiency of the companies.

Paragraph 1 - The execution of the management agreement shall be preceded by the assumption of SABESP's control by the Holding Company and shall establish performance goals, primarily, immediately and objectively, to reduce water losses and for the universalization of basic sanitation services provided by SABESP, evaluation criteria and controls, together with the creation of incentive mechanisms.

Paragraph 2 - The management agreement shall also provide for the expansion of the companies' management autonomy, especially with regard to:

1. definition of a personnel policy, including the establishment of the staff, organizational structure, career and salary plan, internal transfers, automatic substitution mechanisms, selection process to fill vacant positions, conditions for collective bargaining, structuring of programs to encourage performance and profit sharing programs;

2. procedures for bidding, contracting and registration of suppliers and service providers, pursuant to the applicable law, including works, services, rentals, leases, acquisitions, supplies, sale of movable and immovable properties, concessions, public-private partnerships, borrowings, financing, guarantees, structured operations and capital market operations, in addition to other contractual and corporate arrangements, governed by public or private law;

3. cash management, treasury operations, bank payments of salaries and suppliers;

4. autonomy of the annual shareholders' meeting to establish compensation and other payment to Management, pursuant to the parameters and limits established in the management agreement.

Paragraph 3 - The agreement will be valid for up to five (5) years; intermediary renegotiations and successive renewals are possible.

Article 8 - The execution of a management agreement between the State Government, through the protective department, and the São Paulo State Sanitation and Energy Regulatory Agency - ARSESP, is hereby authorized pursuant to article 37, paragraph 8 of the Federal Constitution, in order to strengthen its institutional operation.

Sole Paragraph - The principal purpose of the management agreement is the matters provided for in article 7, paragraph 2, item 1 of this law, in addition to matters related to the agency's financial and budgetary autonomy.

Article 9 - The Parent Company and any legal entity that becomes part of it are obliged to make available, in the transparency portal, all acts issued and agreements signed in full, pursuant to Federal Law 12,527, of November 18, 2011, Federal Law 13,303, of June 30, 2016 and the appropriate regulation of the Brazilian Securities and Exchange Commission - CVM.

Article 10 - This law takes effect on the date of its publication.

Palácio dos Bandeirantes, September 15, 2017

GERALDO ALCKMIN

Helcio Tokeshi

Secretary of the State Finance Department

Saulo de Castro Abreu Filho

Government Secretary

Benedito Pinto Ferreira Braga Junior

Secretary of the Sanitation and Water Resources Department

Samuel Moreira da Silva Junior

Secretary of the Chief of Staff

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