



COMPANHIA RIOGRANDENSE DE SANEAMENTO - CORSAN

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NOTICE TO THE MARKET

**CORSAN ANNOUNCES THE ENTIRETY OF ITS TARIFF
STRUCTURE PROPOSAL**

Companhia Riograndense de Saneamento - Corsan ("**Company**") announces, given the repercussion surrounding the topic and as a complement to the November 9th 2021 Notice to the Market ["Clarification on Corsan's Tariff Structure Proposal"](#), the entirety of Amendment II ("**Tariff Amendment**") of the contract addendums which have been proposed to the municipalities served by the Company. The signed contract addendums and the compromises taken, as per the November 12th 2021 Notice to the Market ["Corsan signs contract amendments and protocols of intent with 10 municipalities"](#), already include the aforementioned Annex with the same regulation.

Under analysis of the competent regulatory agencies, the document which contains the proposals for the guidelines for tariff determinations is as follows:

"ANNEX II – TARIFF AMENDMENT"

SYSTEM TARIFF STRUCTURE

Clause One – Pursuant to Clause XXXXX of the Contract, the parties agree to the following readjustment and review structure of the tariffs to be applied by Corsan.

Of the Annual Tariff Adjustments ("ATA")

Clause Two – The Annual Tariff Adjustments for 2022, 2023, 2024, 2025 and 2026 will be established by applying the annual variation of inflation measured by the Brazilian Broad Consumer Price Index – IPCA (IBGE) or an index that will replace it in the event of extinction, in the following manner:

- a) ATA 2022 – tariff in effect on July 1, 2021, updated by the IPCA variation between June 1, 2021, and May 31, 2022, applied from July 1, 2022, without prejudice to the application of the deferred portion of the readjustment authorized by the Regulatory Agency in the fiscal year of 2021;
- b) ATA 2023 – tariff in effect on July 1, 2022, updated by the IPCA variation between June 1, 2022, and May 31, 2023, with validity and application from July 1, 2023;

c) ATA 2024 – tariff in effect on July 1, 2023, updated by the IPCA variation between June 1, 2023, and May 31, 2024, with validity and application from July 1, 2024;

d) ATA 2025 – – tariff in effect on July 1, 2024, updated by the IPCA variation between June 1, 2024, and May 31, 2025, with validity and application from July 1, 2025;

e) ATA 2026 – – tariff in effect on July 1, 2025, updated by the IPCA variation between June 1, 2025, and May 31, 2026, with validity and application from July 1, 2026;

Clause Three – As of 2028, the methodology for defining the Annual Tariff Adjustment will be established observing the reference standards issued by the National Water and Basic Sanitation Agency – ANA.

Of the Ordinary Tariff Revision (OTR)

Clause Four – On July 1, 2027, the 4th Ordinary Tariff Revision (OTR) of CORSAN will be processed and applied, through the establishment and use of methodologies adhering to the standards established by the National Water and Basic Sanitation Agency - ANA, in accordance with the New Sanitation Framework established by Law No. 14.026, of July 15, 2020.

Clause Five – From 2027 onwards, CORSAN's OTRs will be carried out every five years, through the establishment of a Regulatory Asset Base (RAB)¹, efficient regulatory operating costs², mechanisms for sharing productivity gains (“X factor”)³ and treatment of other revenues⁴, as well as other best regulatory-tariff practices in the market and those that may be established by ANA.

Clause Six – A single tariff will be considered for all municipalities served by Corsan, as well as a single Regulatory Asset Base (RAB) certified by the Regulatory Agency, determined by the New Replacement Value (NRV) methodology and remunerated by a regulatory rate that reflects the Weighted Average Cost of Capital (“WACC”)⁵.

Clause 7 – Regulatory operating costs will be calculated from an efficiency analysis, which will take into account the performance of comparable basic sanitation concessionaires in the national context.

Single sub clause – – The costs considered for comparison purposes must be compatible with the standard of quality of services required in the respective contract, as well as comply with the actual conditions of the geographical area of the concession and with the economic conditions where the concessionaire develops its activity.

Of the Extraordinary Tariff Revision (ETR)

Clause Eight – Without prejudice to the ATA and OTR, if there are significant changes in CORSAN's costs, duly proven and approved by the Regulatory Agency, the Extraordinary Tariff Revision (ETR)

may, at any time, be processed and applied, in order to maintain the economic and financial balance of this Contract.

Clause Nine – The creation, alteration or extinction of any taxes or legal charges, after the signing of this Contract, when impact is proven, will entail an extraordinary revision of the tariffs, upwards or downwards, as the case may be.

Single sub clause – The effects of the termination of the tax immunity from federal taxes in force at the signing of this agreement will not give rise to ETR, and should be considered in the scope of OTR."

¹ The methodology for calculating the Regulatory Asset Base (RAB) aims to identify the physical or intangible assets that the operator uses to provide basic sanitation services, and which will be the basis for calculating the cost of capital (remuneration and amortization). The methodology adopted must actually determine the existing assets and those which are directly related to the provision of the regulated service, called prudent investments. This methodology should mainly address the aspects of: i) eligibility, that is, only assets allocated to the provision of the service should make up the asset base; ii) utility, which concerns the need of the asset in order to provide the service; and iii) prudence, given that the regulated operator must be encouraged to seek greater economic efficiency, making investments that are capable of ensuring the adequate provision of services and guarantee of continuity.

²The methodology for calculating Efficient Operating Costs aims to identify, from a regulatory point of view, the costs associated with the provision of water supply and sanitary sewage services, linked to the concessionaires' operational and routine activities. The methodology seeks to assess the real costs of companies, measure their level of efficiency and simulate competition so that, during the tariff period, costs can be reduced as a result of the efficiency gains obtained. Thus, the concessionaire's efficiency level is essentially given by the company's distance from the efficient reference set for its activity.

³ The methodology for calculating the X Factor aims to establish a mechanism that allows for the sharing of productivity gains obtained by the operator with users. As the operator's revenues evolve depending on their markets and taking into account that the costs incurred are influenced by several factors, for example, change of scale, operational efficiency and price variation, the tendency is for there to be a distance from the balance point between efficient costs and defined revenue at the time of each review. Thus, in order to comply with the principle of moderate tariffs advocated in the legislation and in the very essence of regulation, this productivity gain must be shared with users of the regulated service and its effect transferred to tariffs.

⁴ The methodology for calculating Other Revenues aims to identify revenues arising from activities other than the direct provision of the regulated public service. It is important that the regulatory framework of the basic sanitation service encourages the development of alternative, complementary or accessory activities to the regulated service, as this represents an increase in the efficiency of resource allocation, whose positive effects are shared with users under the form of tariff reduction. Thus, the methodology must be able to combine, at the same time, the promotion of economic incentives in obtaining Other Revenues and contribute to low tariffs.



⁵ The methodology for calculating the Regulatory Capital Remuneration Rate aims to establish the regulatory value by which the investments made by the operator of basic sanitation services will be remunerated. It is worth noting that the undervaluation of this rate reduces the attractiveness of the business, and therefore can lead to a reduction in the level of investments, compromising the quality of the service provided. On the other hand, its overvaluation constitutes an unfair transfer of resources from users to providers of the service in question. Therefore, it is important to determine its adequate and fair value for both the operator and the users and that it considers the risks in the provision of basic sanitation services in Brazil and in particular in Rio Grande do Sul, considering the regulatory Cost values of Equity, Cost of Third-Party Capital and Capital Structure.

Porto Alegre, November 19th, 2021.

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About Companhia Riograndense de Saneamento - Corsan

Corsan is responsible for the construction and operation of public drinking water supply and sewage services in the State of Rio Grande do Sul (RS). The Company operates in 317 of 497 municipalities and has 96.7% of universal access to drinking water in managed urban areas and 18% of universal access to sewage. Its scope reaches about six million people. Corsan also works by treating industrial effluents and solid residues from the III Petrochemical Complex, based in Triunfo (RS), as well as industrial effluents produced by the Industrial Motors Complex of General Motors do Brasil, in the city of Gravataí (RS). Corsan, headquartered in the city of Porto Alegre, is a mixed-capital company, whose share control is exercised by the State of Rio Grande do Sul.
