

ANNEX VIII
THE INITIAL TARIFF FORMATION

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1. Chapter 1 - Preamble and Purpose

1.1. This Annex VIII – Initial Tariff Formation (“**ANNEX**”) establishes the parameters and assumptions adopted for the calculation of the INITIAL TARIFF of the CONTRACT, to be published within the scope of the PRIVATIZATION PROCESS, and the criteria which must be adopted by ARSESP for the 1st ADJUSTMENT.

1.2. The Annex will be structured into the following modules:

- (i) Definitions;
- (ii) Methodology for calculating the Initial Tariff;
- (iii) Calculation of the K Factor Revenue;
- (iv) Calculation of Additional Revenues, Supplemental Revenues and Revenues for Associated Projects;
- (v) Calculation of Unrecoverable Revenue;
- (vi) Calculation of Operating Expenses;
- (vii) Calculation of Other Operating Expenses;
- (viii) Calculation of Capital Remuneration;
- (ix) Calculation of the Regulatory Remuneration Rate;
- (x) Capital Reinstatement calculation;
- (xi) Calculation of the Financial Components of the 2024 Adjustment;
- (xii) Criteria for the 1st ANNUAL TARIFF ADJUSTMENT;
- (xiii) General Provisions.

1.3. The methodology established in this ANNEX has as its main purpose the definition of an INITIAL TARIFF of the CONTRACT and the tariff affordability.

1.4. This ANNEX will be binding on the PARTIES and ARSESP.

1.5. Capitalized terms will have the definitions contained in Clause 1 of the CONTRACT (Title II – Definitions – Chapter 1 – Glossary), or, when they are not defined in the CONTRACT, will have the definitions detailed in this ANNEX or in ANNEX V – REGULATORY MODEL.

2. Chapter 2 - Definitions

2.1. For the purpose of this ANNEX, the following definitions apply:

- (a) COMPENSATORY ADJUSTMENT OF THE 3RD OTR (“COMPENSATORY ADJUSTMENT”): a financial component of the 3rd OTR, to be applied on the EQUILIBRIUM TARIFF of the 1ST ADJUSTMENT for the components foreseen in Final Technical Note NT.F-0016-2021, as compensatory adjustments for the cycle, if they have not yet been implemented;
- (b) USER CATEGORIES: classification of UNITS served through the provision of SERVICES. In this ANNEX, two large groups are considered:

residential and non-residential. The non-residential category includes industrial, commercial and public units;

- (c) FINANCIAL COMPONENTS: adjustments or compensations relating to the previous period that will affect the EQUILIBRIUM TARIFF of the following tariff period. Reimbursements may be made to both USERS and SABESP;
- (d) UNITS: property or part of a property that uses water supply and/or sanitation SERVICES, even if through a single connection;
- (e) TECHNICAL INEFFICIENCY INVENTORY: represents the distance between SABESP's operating costs and the EFFICIENCY FRONTIER, which shows the minimum operating costs for a certain level of PRODUCTS;
- (f) K FACTOR: technical coefficient attributed to the pollutant load resulting from the discharge of non-residential sewage into SABESP's network, which, in general, increases the monthly billing for large users such as industrial and commercial customers whose effluents are discharged into the public network;
- (g) EFFICIENCY FRONTIER: minimum level of operating costs (INPUTS) that can be used to achieve a certain level of PRODUCTS, estimated through sector benchmarking techniques. It is the minimum cost curve where the most efficient companies are located compared to the sample list of service providers;
- (h) CONNECTIONS: connection from a building or residential branch, or another alternative method, to the water distribution network and/or the sewage collection network. In buildings, a connection can serve a single unit or several units;
- (i) REFERENCE MARKET: refers to the water distribution and sewage collection market observed during the RP0, whose information includes data on volumes, number of units and connections during 12 months, from January to December 2023;
- (j) REFERENCE PERIOD 0 or RP0: corresponds to the period from January to December 2023;
- (k) REFERENCE PERIOD 1 or RP1: corresponds to the validity period for the INITIAL TARIFF. This includes the period between the EFFECTIVE DATE and December 2025, when the 1st ADJUSTMENT will be approved;
- (l) K FACTOR REVENUE: revenue resulting from the application of the K FACTOR, which corresponds to the technical coefficient attributed to the pollutant load resulting from the discharge of non-residential sewage into the public network, which, in general, increases the monthly billing for large users such as industrial and commercial customers whose effluents are discharged into SABESP's network;
- (m) BASE TARIFF REVENUE 0 (TR0): base tariff revenue verified in RP0. Corresponds to the product between the EQUILIBRIUM TARIFF in effect during the last month of RP0 and the BILLED MARKET in RP0, considering only the tariff discounts authorized by ARSESP (January to December 2023);

- (n) BASE TARIFF REVENUE 1 (TR1): the base tariff revenue corresponding to the REQUIRED REVENUE calculated for RP0 minus ADDITIONAL REVENUES, SUPPLEMENTAL REVENUES and K FACTOR REVENUE;
- (o) WATER TARIFF REVENUE: operating revenue generated through water supply services. This is the sum of the tariff revenue resulting from services provided to residential and non-residential users;
- (p) SEWAGE TARIFF REVENUE: operating revenue generated through sewage collection and/or treatment services. This is the sum of the tariff revenue resulting from services provided to residential and non-residential users;
- (q) RETURNS TO SCALE: properties that describe the relationship between changes in INPUTS caused by changes in PRODUCTS. Constant returns to scale are said to exist when the variation in inputs generates a proportional variation in outputs. There are increasing returns to scale when the variation in input generates a more than proportional variation in products. The decreasing returns to scale occur when the variation in inputs generates a lower than proportional variation in products;
- (r) INITIAL TARIFF or P0: EQUILIBRIUM TARIFF is initial average of the CONTRACT that must be in force in RP1, recorded as reais per cubic meter. It is the result of the ratio between TR1 and the MEASURED VOLUME in RP0. This is the TARIFF that remunerates prudent investments and covers SABESP's efficient costs in RP1, to which the Company is entitled;
- (s) INITIAL APPLICATION TARIFF: the average tariff to be paid by USERS to SABESP for the use of SERVICES during RP1;
- (t) CURRENT TARIFF: the average tariff paid by USERS to SABESP based on the MEASURED VOLUME and the tariff table defined by ARSESP in ARSESP Resolution 1,514/2024, valid from May 2024 to the EFFECTIVE DATE;
- (u) MEASURED VOLUME: a joint reference to the annual water volume measured from the water meters installed in the active water CONNECTIONS and the annual sewage volume collected, recorded in cubic meters (m3);
- (v) BILLED VOLUME or FUTURE MARKET: the annual water and sewage volume considered for calculating consumer bills, recorded in cubic meters (m3). The billed volume may be different from the MEASURED VOLUME due to measuring errors or the impossibility of hydrometry, which requires us to use an estimated volume for the UNITS, or a minimum consumption for billing purposes.

3. Chapter 3 - Methodology for Calculating the INITIAL EQUILIBRIUM TARIFF

3.1. The calculation of the average INITIAL TARIFF adopts a backward-looking approach, which observes market data, investments and costs related to RP0.

3.2. The average INITIAL TARIFF, in the amount of R\$ 6.3359/m³, results from dividing the TR1 calculated based on the information for RP0 and the MEASURED VOLUME (in m³), also verified in RP0, according to the equation below:

$$P0 = \frac{TR1}{\frac{MarketP}{R0}} + FC$$

Where:

P_0 is the average INITIAL TARIFF;

$TR1$ is the BASE TARIFF REVENUE which uses the RR from 2023 (RP0);

FC are the FINANCIAL COMPONENTS from SABESP's last tariff adjustment (2024), to be included in the INITIAL TARIFF according to Chapter 12; and

$marketP_{R0}$ is the sum of the water volume measured in 2023 (RP0) with the sewage collection volume.

3.3. The BASE TARIFF REVENUE 1 (TR1) is measured in such a way that, the amount from ADDITIONAL REVENUES, SUPPLEMENTAL REVENUES, ASSOCIATED PROJECTS and K FACTOR REVENUE, add up to the REQUIRED REVENUE of RP0.

3.3.1. The calculation of the REQUIRED REVENUE is comprised by cost blocks, where each component of the calculation is assessed separately and then consolidated, forming the RR.

3.3.2. The RT1 value is calculated according to the equation below:

$$RT1 = RRPR0 - K \text{ Factor} - \text{Additional Revenues} - \text{Supplemental Revenues} - \text{Revenues from Associated Projects}$$

$$RRPR0 = UR + OPEXPR0 + PPPPR0 + FMSB + \text{Water Res. Fee}_{PR0} + IDP + \text{Reintegration of } KPR0 + \text{Remuneration of } KPR0$$

Where:

$RRPR0$ is the Required Revenue in RP0 (2023);

$K \text{ Factor}$ is the revenue resulting from the application of the K Factor, whose criteria is defined in item 4;

Additional Revenues are the revenues arising from ANCILLARY ACTIVITIES, as detailed in item 5;

Supplemental Revenues are the revenues arising from the application of OTHER PRICES for the execution of SUPPLEMENTAL ACTIVITIES, as detailed in item 5;

Revenues from Associated Projects are the revenues arising from ASSOCIATED PROJECTS, as detailed in item 5;

UR is the UNRECOVERABLE REVENUE, whose methodology is described in item 6;

$OPEX$ is the regulatory operating cost assessed in RP0, as detailed in item 7;

PPPPR0 include expenses for the payment of Public-Private Partnerships and Asset Leasing Contracts recorded in RP0, whose methodological details are described in items 8.6 and 8.7;

FMSB represents the transfer to the Municipal Sanitation Funds, whose methodological details are described in item 8.8;

Water Res. Fee is the transfer of fee payments for the use of water resources, whose methodological details are described in item 8.9;

RDI is the transfer to the Fund for Research, Development and Innovation, whose methodological details are described in item 8.10.

Reintegration of K is the capital recovery, corresponding to the Regulatory Reintegration Quota (RRQ) applied to the Gross Regulatory Asset Base (RAB), whose calculation details are described in item 9; and

Remuneration of K is the capital remuneration, which corresponds to the application of the WACC over the Working Capital Requirement (WCR) with the RABnet, whose calculation details are described in item 11.

3.4. The BASE TARIFF REVENUE 1 (TR1), calculated according to item 3.3, is increased by the FINANCIAL COMPONENTS of the TARIFF ADJUSTMENT in 2024 to calculate the INITIAL TARIFF. The calculation of these components is described in Chapter 12. The FINANCIAL COMPONENTS (FC), recorded in R\$/m³, will consider the estimated market between the EFFECTIVE DATE and December 2025.

3.5. The INITIAL TARIFF, as well as all monetary components of TR1, are at June 2024 prices. The latest IPCA available up to the date of CONTRACT EFFECTIVENESS is the index used in the monetary restatements for the INITIAL TARIFF.

4. Chapter 4 - Calculation of the TR1: K Factor Revenue

4.1. As provided in article 11 of SABESP's Tariff System Regulation, approved by State Decree 41,446/1996, SABESP may establish fixed prices and specific conditions for sewage monitoring, collection and treatment services.

4.2. In the REGULATION, services associated with non-residential effluents are subject to the application of the K FACTOR, which corresponds to a metric that estimates the pollutant load, toxicity and flow rate of the discharge of non-residential sewage into the Company's network.

4.2.1. Therefore, the K FACTOR is applied to sewage rates only for non-residential USERS who discharge their effluents into the public network.

4.2.2. The K FACTOR values vary according to (1) how the sewage is released into the network, which can be done directly into the collection network or through vehicles that transport the discharge the effluents at SABESP's receiving stations, and (2) the line of business or industry that originated the effluent.

4.3. Since infrastructure SERVICES are shared, investments and expenses for the collection and treatment of these effluents are covered by the USERS through the TARIFFS. Therefore, SABESP's ADDITIONAL REVENUES originated from the increase in the K FACTOR charged to non-residential USERS who have non-residential effluents that are collected and treated by the sewage system are fully reverted to the tariff affordability in the P0

calculation.

4.4. To calculate the initial P0, given the different values of the K FACTOR due to sectors and how sewage is released into the network, a single index is defined for all industrial and commercial sectors, which varies only by Business Unit.

4.4.1. The K FACTOR per Business Unit is estimated based on the historical billed consumption to non-residential USERS who pay K FACTOR, considering the tariff table in effect in December 2023. Corresponds to the proportion of FACTOR K revenue in relation to non-residential tariff revenue for the sewage service in RP0, both of which are calculated based on the tariff table effective in December 2023.

4.4.2. The indexes of each SABESP Business Unit considered in the calculation of the K FACTOR revenue are presented in the table below:

Table 1 - K Factor revenue index for non-residential users

Business Unit	K Factor
MC	0.8%
ML	5.5%
MN	1.1%
MO	3.6%
MS	4.9%
RA	14.9%
RB	31.2%
RG	8.4%
RJ	9.3%
RM	16.5%
RN	10.1%
RR	9.1%
RS	10.7%
RT	7.4%
RV	10.3%
M (São Paulo)	4.9%

4.5. To calculate the average INITIAL TARIFF, the total K FACTOR revenue in RP0 is reached by the sum of the K FACTOR revenue of each municipality listed in ANNEX I – MUNICIPALITIES SERVED. The total K FACTOR revenue in PR0 for these municipalities will be shared among USERS.

4.6. The K FACTOR revenue of each MUNICIPALITY is calculated by multiplying the index of its respective Business Unit listed in Table 1 and the SEWAGE TARIFF REVENUE of the non-residential users in RP0, according to the equation below:

$$Revenue K^i_{PR0} = K Factor^{UNI}_{PR0} \times Rev. Non-resid. sewage tariff_{PR0}$$

Where:

Revenue Kⁱ is the K FACTOR revenue of municipality i;

$K_{PR0} \text{ FACTOR}_{UNI}$ is the K FACTOR for the Business Unit of municipality i listed in Table 1;
 $Rev. \text{ Non-resid. sewage tariff } i$ is the tariff revenue received in $RP0$ for MUNICIPALITY i originating from sewage services to non-residential USERS.

4.7. K FACTOR revenues, in the amount of R\$ 234.16 million, reduce the REQUIRED REVENUE for calculating TR1, at June 2024 prices.

5. Chapter 5 - Calculation of ADDITIONAL REVENUES, SUPPLEMENTAL REVENUES and Revenues from ASSOCIATED PROJECTS

5.1. The total value of ADDITIONAL REVENUES used in the $P0$ calculation corresponds to the arithmetic average of the amounts effectively earned by SABESP from ANCILLARY ACTIVITIES from 2021 to 2023. When calculating the average value, the total ADDITIONAL REVENUES generated from 2021 to 2023 is considered.

$$\text{Additional Revenues} = \frac{\text{Additional Revenues}_{2021-2023}}{3}$$

Where:

$\text{Additional Revenues}_{2021-2023}$ is the average amount of total revenues from ANCILLARY ACTIVITIES and ASSOCIATED PROJECTS gained by SABESP from 2021 to 2023, recorded in R\$, at June 2024 prices.

5.2. The total amount of SUPPLEMENTAL REVENUE considered in the $P0$ calculation corresponds to the amount actually earned by SABESP from SUPPLEMENTAL ACTIVITIES in $RP0$, and the total revenue earned by the Company in 2023 is shared among USERS.

$$\text{Supplemental Revenues} = \text{Supplemental Revenues}_{PR0}$$

5.3. The total amount of revenue from ASSOCIATED PROJECTS considered in the $P0$ calculation corresponds to R\$ 16.27 million.

5.4. In the INITIAL TARIFF calculation, the amounts of ADDITIONAL REVENUES and SUPPLEMENTAL REVENUES, in the amounts of R\$ 66.47 million and R\$ 84.49 million, respectively, which will be shared with users are reduced from the REQUIRED REVENUE amount.

5.5. Only the amount of ADDITIONAL REVENUE defined in item 5.3 will remain in fixed, in actual values, in the tariff revenue calculation for the ANNUAL ADJUSTMENTS of the 1st TARIFF CYCLE until the date of the 1st PERIODIC TARIFF REVIEW, to be carried out in 2029, from when the sharing rule provided for in ANNEX V - REGULATORY MODEL will come into effect.

Table 2 - Historical ADDITIONAL REVENUES, SUPPLEMENTAL REVENUES, and revenues from ASSOCIATED PROJECTS (in R\$ million)

Year	Revenues from Ancillary Activities	Revenues from Associated Projects	Supplemental Revenues
2021	R\$ 62.15	R\$ 16.60	-
2022	R\$ 58.72	R\$ 21.84	-
2023	R\$ 29.70	R\$ 10.38	R\$ 84.49

Average SABESP (additional revenues)	R\$ 66.47	-
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6. Chapter 6 - Calculation of RR: UNRECOVERABLE REVENUES

6.1. To define the amount of UNRECOVERABLE REVENUES, which comprise the RR in the P0 calculation, we assess the aging curve of SABESP's debt.

6.1.1. The regulatory target for UNRECOVERABLE REVENUE is determined according to the historical behavior of the verified payment flow for SABESP's billed invoices in a 60-month period, from January 2019 to December 2023.

6.1.2. The monthly non-receipt rate is equal to the ratio between monthly billings not paid and the total billed volume, considering the sum of invoice billed to SABESP's residential, industrial, commercial, public and government-controlled categories from January 2019 to December 2023.

6.1.3. In the 60-month period, the stabilizing point for the monthly non-receipt index curve occurs from 52nd month (Oct/2019) and the 56th month (June/2019). The average monthly non-receipt rate was 1.65% in this period.

6.2. To encourage efficiency gains and reduce defaults in SABESP's operating area, the default percentage adopted in the P0 calculation, and to be used in the ANNUAL ADJUSTMENTS for the 1st TARIFF CYCLE, will be 1.65%. This percentage will remain fixed until the following tariff review cycle in 2029, when the methodology established in ANNEX V - REGULATORY MODEL will come into effect.

6.3. The amount of UNRECOVERABLE REVENUES used in the average INITIAL TARIFF (P0) calculation is reached by applying the default rate defined in item 6.1 over the BASE TARIFF REVENUE in RP1 (TR1), as described in the following equation:

$$UR = \%UR \times TR1$$

Where:

UR: is the amount of UNRECOVERABLE REVENUES used for the RR calculation in RP0;

$\%UR$ is the percentage of structural default for the 1st TARIFF CYCLE, equivalent to 1.65%.

6.3.1. These revenues are calculated iteratively, as their amount simultaneously comprise the RR of the RP0 and is used in its measurement.

6.3.2. The amount of UNRECOVERABLE REVENUES used in the average INITIAL TARIFF calculation is R\$ 369.95 million, at June 2024 prices.

7. Chapter 7 - Calculation of RR: Operating Expenses (OPEX)

7.1. Operating costs include expenses with personnel, third-party services, treatment material and general supplies, electricity, as well as other general expenses related to SABESP's activity; These costs are called OPEX.

7.2. For the purpose of calculating the REQUIRED REVENUE, the OPEX amount is reached by multiplying the cost drivers recorded in RP0 (2023) by the regulatory unit cost by the cost purpose and production stage, as defined in item 7.5.

7.2.1. When determining the operating costs covered by this chapter, the components relating to municipalities that have not joined URAE-1 must be segregated, so that only the OPEX of the municipalities indicated in ANNEX I – MUNICIPALITIES SERVED is included.

7.2.2. The division of operational costs, for infrastructure sharing with a municipality that has not joined URAE-1, shall follow the rules established in the ARSESP resolution.

7.2.3. Cost purposes are (1) personnel, including own and third-party services; (2) general materials; (3) treatment materials; (4) electricity and (5) general expenses;

7.2.4. The production stages are (1) water production; (2) water distribution; (3) sewage collection; (4) sewage treatment; (5) commercial activities; and (6) central management:

- (i) adding the operating costs for stages (1) and (2) will correspond to the OPEX of the water service;
- (ii) adding the operating costs for stages (3) and (4) will correspond to the OPEX of the sewage service;
- (iii) adding the operating costs for stages (5) and (6) will correspond to the overall OPEX.

7.3. In Table 3, the total OPEX considered in the INITIAL TARIFF refers only to operational and maintenance services carried out in urban areas of the municipalities. Due to the lack of SERVICES in dispersed rural in RP0, the rural OPEX is null for the purpose of calculating the INITIAL TARIFF. The values are at June 2024 prices.

Table 3 - OPEX used in the calculation of the INITIAL TARIFF (SABESP)

Operating Costs	Value (in million)
OPEX Water	R\$ 4,489.50
OPEX Sewage	R\$ 2,647.91
OPEX General	R\$ 1,384.09
OPEX Rural Area	R\$ 0
OPEX Total	R\$ 8,521.50

7.4. Definition of the Cost Factors

7.4.1. The cost factors considered for calculating OPEX for P0 correspond to the ones listed in item 10.5.1 of ANNEX V – REGULATORY MODEL. Except for the water volume produced, data on the other factors that determine operating costs (active water connections, active sewage connections, water volume measured, collected volume, and treated sewage volume) refer to the data recorded in RP0 (2023). The values used to calculate the OPEX of the INITIAL TARIFF are shown in Table 8 of Appendix A of this ANNEX.

7.4.2. For the purpose of calculating OPEX for the INITIAL TARIFF, the amount of WATER VOLUME PRODUCED is calculated as the sum of the measured volume, the special usage volume, and the water loss volume, whose calculation considers the regulatory loss target to the detriment of the amounts actually recorded in RP0:

- (i) the volume of contractual WATER LOSSES;
- (ii) the water volume measured used in the calculation refers to the amounts recorded in RP0;
- (iii) the SPECIAL USAGE VOLUME used in the calculation refers to the amounts recorded in RP0;

7.4.3. The value for cost factors are multiplied by the regulatory unit costs to calculate the total OPEX to be used in the REQUIRED REVENUE.

7.5. Definition of Regulatory Unit Costs

7.5.1. The regulatory unit operating cost is calculated for each combined stage and purpose, and represents the cost that, multiplied by the respective factors, results in the OPEX used for calculating the INITIAL TARIFF.

7.5.2. The regulatory unit cost of RP0 corresponds to the unit cost in 2022, after including the qualitative cost disallowances, for a portion of the Technical Efficiency Factor and the X FACTOR.

7.5.3. The regulatory unit operating cost, which will be the reference starting cost, used in the OPEX calculation for measuring the INITIAL TARIFF corresponds to the actual unit cost in 2022, after including the qualitative cost disallowances, deducted from an efficiency factor necessary for getting SABESP closer to the technical efficiency frontier. The unit operating cost is calculated according to the following equation:

$$RegUC^{i,j} = ActualUC_{PR0}^{i,j} \times \left(\frac{1 - EF}{1 - \%disallowances} \right) \times (1 - X Factor)$$

Where:

$RegUC_{i,j}$ is the regulatory unit cost calculated for purpose of stage j;

$ActualUC_{PR0}^{i,j}$ is the actual unit cost recorded in RP0 for purpose i of stage j, after the qualitative cost disallowances, as described in item 7.6;

EF is the historical Technical Efficiency Factor, equivalent to 8.66%, as defined in item 7.5.55. For each cost purpose, the value of the Efficiency Factor (EF) depends on the % of the disallowances;

%disallowances is the percentage of qualitative cost disallowances discounted from the actual unit cost in 2022;

X Factor is the annual productivity gain factor expected for the next cycle, equal to 0.89%, as defined in item 7.8.

- (i) When defining the reference unit costs, there are no double deductions, given that we verify if the qualitative cost disallowances do not surpass the TECHNICAL INEFFICIENCY INVENTORY estimated by the DEA benchmarking method (EF = 8.66%). Therefore, the cost reduction corresponds to the positive difference between the INEFFICIENCY STOCK measured by DEA and the average percentage of the qualitative cost disallowances;
- (ii) As qualitative cost disallowances are applied according to cost purpose, the EF value for each purpose depends on its weight in the total cost composition, thus ensuring that the total starting regulatory cost is exactly 8.66% lower than the total actual cost.

7.5.4. Operating costs, in 2022, are used as a reference for calculating the regulatory unit cost of the INITIAL TARIFF. Actual unit cost refers to unit costs recorded from January to December 2022. Their values result from the ratio between the total OPEX recorded, in 2022, for each cost purpose, after qualitative cost disallowances, and the respective cost factor also recorded in 2022.

- (i) All costs for the production stage have the volume of water produced as a determining factor. Therefore, the actual unit cost for all purposes of this stage is calculated according to the equation below:

$$RealUC_{i,production}^{PRO} = \frac{OPEX_{gi,production}^{PRO}}{WPV_{PRO}}$$

Where:

$RealUC_{i,production}^{PRO}$ is the actual unit cost for the production stage of purpose i recorded in 2022, in R\$/m3;

$OPEX_{gi,production}^{PRO}$ is the actual operating cost after qualitative cost disallowances for purpose i of the water production stage recorded in 2022, in R\$; and

WPV_{PRO} is the WATER VOLUME PRODUCED in 2022, in m3.

- (ii) Considering the WATER VOLUME MEASURED as the cost factor, the actual unit cost for the water distribution for the purpose of treatment materials and electricity is calculated according to the equation below:

$$RealUC_{i,distribution}^{PRO} = \frac{OPEX_{gi,distribution}^{PRO}}{WVMP_{PRO}}$$

Where:

RealUG_{PRO} distribution is the actual unit cost of the water distribution stage for purpose i recorded in 2022, in R\$/m3, in which i = treatment materials or electricity;

OPEX_{PRO}gi distribution is the actual operating cost after qualitative cost disallowances for purpose i of the water distribution stage recorded in 2022, in R\$, in which i = treatment materials or electricity; and

WVM_{PRO} is the WATER VOLUME MEASURED recorded in 2022, in m3.

- (iii) Considering the number of water CONNECTIONS as the cost factor, the actual unit cost of the water distribution stage relating to the personnel and third-party services, general materials and general expenses purposes is calculated according to the equation below:

$$RealUG_{PRO}^{distribution} = \frac{OPEX_{PRO}^{gi, production}}{water\ connec.PRO}$$

Where:

RealUG_{PRO} distribution is the actual unit cost of the water distribution stage for purpose i recorded in 2022, in R\$/connection, in which i = personnel and third-party services, or general materials, or general expenses;

OPEX_{PRO}gi distribution is the actual operating cost after qualitative cost disallowances for purpose i of the water distribution stage recorded in 2022, in R\$, in which i = personnel and third-party services, or general materials, or general expenses; and

water connec.PRO is the number of active water connections recorded in 2022.

- (iv) Considering the collected sewage volume as the cost factor, the actual unit cost of the sewage collection stage for the purpose of treatment materials and electricity is calculated according to the equation below:

$$RealUG_{PRO}^{collection} = \frac{i, collection_{PRO}}{SCC_{PRO}}$$

Where:

RealUG_{PRO} collection is the actual unit cost for the sewage collection stage for purpose i recorded in 2022, in R\$/m3, in which i = treatment materials or electricity;

OPEX_{PRO}gi collection is the actual operating cost after qualitative cost disallowances for purpose i of the sewage collection stage recorded in 2022, in R\$, in which i = treatment materials or electricity; and

SCV_{PRO} is the sewage collection volume recorded in 2022, in m3.

- (v) Considering the number of sewage CONNECTIONS as the cost factor, the actual unit cost of the sewage collection stage relating to the personnel and third-party services, general materials and general expenses purposes is calculated according to the equation below:

$$RealUG_{PR0}^{collection} = \frac{OPEX_{PR0}^{i,collection}}{sewage\ connec.PR0}$$

Where:

$RealUG_{PR0}^{collection}$ is the actual unit cost of the sewage collection stage for purpose i recorded in 2022, in R\$/CONNECTION, in which i = personnel and third-party services, general materials or general expenses;

$OPEX_{PR0}^{i,collection}$ is the actual operating cost after qualitative cost disallowances for purpose i of the sewage collection stage recorded in 2022, in R\$, in which i = personnel and third-party services, general materials, or general expenses; and

$sewage\ connec.PR0$ is the number of active sewage CONNECTIONS recorded in 2022.

- (vi) All costs for the treatment stage have the treated sewage volume as a determining factor. Therefore, the actual unit cost for all purposes of this stage is calculated according to the equation below:

$$RealUG_{PR0}^{treatment} = \frac{OPEX_{PR0}^{i,treatment}}{STV_{PR0}}$$

Where:

$RealUG_{PR0}^{treatment}$ is the actual unit cost of the treatment stage for purpose i recorded in 2022, in R\$/m3;

$OPEX_{PR0}^{i,treatment}$ is the actual operating cost after qualitative cost disallowances for purpose i of the sewage treatment stage recorded in 2022, in R\$; and

STV_{PR0} is the sewage treatment volume recorded in 2022, in m3.

- (vii) All costs for the commercial stage have the number of water CONNECTIONS as a determining factor. Therefore, the actual unit cost for all purposes of this stage is calculated according to the equation below:

$$RealUG_{PR0}^{commercial} = \frac{OPEX_{PR0}^{i,commercial}}{water\ connec.PR0}$$

Where:

$RealUG_{PR0}^{commercial}$ is the actual unit cost for the commercial stage of purpose i recorded in 2022, in R\$/connection;

$OPEX_{PR0}^{i,commercial}$ is the actual operating cost after qualitative cost disallowances for purpose i of the commercial stage recorded in 2022, in R\$; and

$water\ connec.PR0$ is the number of active water connections recorded in 2022.

- (viii) Since the fixed factor corresponds to the unit, the actual unit cost for central management is equal to the total operating cost after qualitative cost disallowances recorded in 2022 for each purpose i.

7.5.5. The TECHNICAL EFFICIENCY FACTOR - EF represents the cost reduction required to reduce SABESP's distance from the frontier. The EF used to calculate the OPEX of the INITIAL TARIFF equals to 8.66%, which corresponds to the Company's average TECHNICAL INEFFICIENCY INVENTORY recorded from 2019 to 2022, as described in the calculation methodology in item 7.7. As indicated in item 7.5.3, the actual starting unit cost is reduced by 8.66%, although a portion of this reduction results from qualitative cost disallowances.

7.5.6. In addition to the Technical Efficiency Factor, the X FACTOR is applied at a rate of 0.89% over the actual operating unit cost, after qualitative cost disallowances and incurring a portion of the EF. The methodology for calculating the X FACTOR used to determine the OPEX of P0, and to be applied by ARSESP in the ADJUSTMENTS of the 1st TARIFF CYCLE is described in item 7.8.

7.5.7. Once the EF and the X FACTOR have been defined, and the actual unit cost of PR0 is calculated, the regulatory unit cost used to calculate the OPEX in the INITIAL TARIFF is shown by the amounts provided in Table 4.

Table 4 – Regulatory Unit Operating Costs for the 1st TARIFF CYCLE

Stage / Purpose	Water Production	Water Distribution	Sewage Collection	Sewage Treatment	Commercial Activities	Central Management
Personnel and Third-Party Services	R\$ 0.42/m3	R\$ 146.46/connection	R\$ 148.54/connection	R\$ 0.59/m3	R\$ 79.76/connection	R\$ 37,210,464.64
General Supplies	R\$ 0.04/m3	R\$ 14.04/connection	R\$ 11.08/connection	R\$ 0.06/m3	R\$ 0.82/connection	R\$ 191,485.40
Treatment Supplies	R\$ 0.20/m3	R\$ 0.00/m3	R\$ 0.00/m3	R\$ 0.12/m3	R\$ 0.00/connection	R\$ 30.05
Electricity	R\$ 0.38/m3	R\$ 0.19/m3	R\$ 0.08/m3	R\$ 0.19/m3	R\$ 0.11/connection	R\$ 116,723.23
General Expenses	R\$ 0.02/m3	R\$ 10.15/connection	R\$ 9.63/connection	R\$ 0.02/m3	R\$ 0.27/connection	- R\$ 256,974.43

7.5.8. The regulatory unit costs to be used by ARSESP as reference for calculating the annual OPEX based on the ADJUSTMENTS of the 1st TARIFF CYCLE must be equal to the costs defined in item 6.5.7 of this ANNEX, subject only to monetary restatements by the IPCA price index and the sharing of efficiency gains through technological advancement.

7.6. Definition of Qualitative Cost Disallowances

7.6.1. To calculate the actual and regulatory unit cost, we adopt accounting information on total operating costs in 2022.

7.6.2. Since there are operating expenses incurred that should not be covered by the INITIAL TARIFF, some accounting accounts are excluded, or disallowed, from the total OPEX. These accounts do not have actual disbursements, are not related to SABESP's failure in complying with rules and laws, or are not essential

for providing SERVICES, which represent actions by the Company's management or are related to damage caused to third parties or the environment.

- (i) The total OPEX recorded in 2022 is disallowed in accordance with the general criteria for glossing operating costs established in item 10.7 of ANNEX V – REGULATORY MODEL;

7.6.3. The description of the accounting entries excluded from SABESP's OPEX calculation, used as reference for determining the regulatory unit cost, is listed in Table 9 of Appendix A of this ANNEX.

7.7. Calculation of the Historical Efficiency Factor

7.7.1. Exceptionally for calculating the efficient operational cost of the INITIAL TARIFF and the costs of the 1st TARIFF CYCLE, the TECHNICAL EFFICIENCY is calculated through a non-parametric benchmarking approach: the Data Envelopment Analysis (DEA).

7.7.2. DEA estimates the EFFICIENCY FRONTIER, or minimum operating costs, of the sector based on mathematical programming. In this method, an efficiency score is calculated from the comparison between linear combinations of INPUTS and PRODUCTS from each service provider in the sample.

7.7.3. One of the model's output is the technical efficiency metric. The calculation of the TECHNICAL INEFFICIENCY INVENTORY for each service provider is done from the difference between 100% and the technical efficiency metric, therefore representing the distance in relation to the frontier. The TECHNICAL INEFFICIENCY INVENTORY is equal to zero for service providers located on the EFFICIENCY FRONTIER and range from 0 and 1 for service providers whose recorded costs are above the frontier.

7.7.4. The technical efficiency metric of the DEA model is estimated from actual observations, in which each service provider was represented by the amounts of their average INPUTS and PRODUCTS over a four-year period (2018-2021).

7.7.5. To calculate SABESP's TECHNICAL INEFFICIENCY INVENTORY considered in the regulatory unit cost used for calculating the INITIAL TARIFF and the adjusted tariffs during the 1st TARIFF CYCLE, the following assumptions and specifications are adopted:

- (i) Input-oriented model;
- (ii) Non-decreasing returns to scale;
- (iii) Input variables: operating expenses (DEX), deflated by the IPCA price index at December 2019 prices, and losses;
- (iv) Product variables: active water and sewage connections, active water and sewage units, water volume measured, collected sewage volume, and treated sewage volume.
- (v) Sample of SABESP's peer service providers: national providers of water and sewage services, with regional coverage. Based on this filtering, SABESP's peers include 25 service providers;

(vi) Adjustments are made to the final values of the efficiency metric to remove biases in the data through the bootstrap technique¹;

(vii) Technical efficiency outputs after adjustments for biases are normalized by the maximum efficiency level obtained through the bootstrap simulations.

7.7.6. The efficiency metrics obtained for each of the 25 sample service providers are presented in Table 10 of Appendix A of this ANNEX. Since SABESP's efficiency measure is 91.34%, its TECHNICAL INEFFICIENCY INVENTORY is 8.66%.

7.8. Calculating the X FACTOR

7.8.1. The X FACTOR adopted to calculate the P0 is 0.89% and must be applied cumulatively to the regulatory unit cost defined in this ANNEX during the ANNUAL ADJUSTMENTS of the 1st TARIFF CYCLE. This value is an output from the MALMQUIST INDEX approach, which compares, in two periods, the number of INPUTS used by companies in the service providers sample to generate their PRODUCTS.

7.8.2. Although the Malmquist method can be broken down into two effects, namely: (i) change in productive efficiency (approaching or distancing from the cost frontier); and (ii) technological change (shift in cost efficiency frontier over time), the FACTOR X corresponds solely to the effect caused by technological changes, given that productive change is already captured by the EF.

7.8.3. To calculate the shift of the cost efficiency frontier that represents the estimated technological efficiency gains in the sector, the following is considered:

- (i) The DEA methodology, with the same INPUTS, PRODUCTS and assumptions defined in item 7.7 to measure the cost efficiency frontier in both time periods;
- (ii) The shift in the EFFICIENCY FRONTIER from 2018 to 2021;
- (iii) The average cost frontier shift effect for service providers in the sample, weighted by the average number of active water connections in the same period (2018 and 2021).

8. Chapter 8 - Calculation of RR: Other Operating Expenses

8.1. In addition to the operating costs described in Chapter 7, there are other indirect expenses that are passed on to the INITIAL TARIFF, since they are expenses that cannot be managed by SABESP. In the P0 calculation, the following expenses comprise the RR:

- (i) payment of consideration in PR0 relating to the Alto Tietê Public-Private Partnership and São Lourenço Production System contracts;
- (ii) payment of installments and other contractual obligations of current Asset Lease contracts (Água Limpa, Campos do Jordão, São José dos Campos and Franca (Sapucai));

¹ Resampling method in which data extraction is done with replacement. The proposal by Simar and Wilson (1998) is used, which is the main reference in literature for resampling analyses linked to DEA.

- (iii) transfer to MUNICIPAL FUNDS for basic sanitation;
- (iv) transfer of fee payments regarding the use of water resources;
- (v) transfers to the research, development, and innovation program (RDI).

8.2. In determining the other operating expenses addressed in this chapter, the components related to municipalities that did not join the URAE-1 must be segregated, so that only the expenses of the municipalities listed in ANNEX I are considered.

8.3. The division of operating expenses, in cases of infrastructure sharing with municipalities not part of URAE-1, shall follow the rules outlined in ARSESP's resolution.

8.4. The REGULATION AND INSPECTION FEE is not included in the RR calculation for the purpose of calculating P0. Its value must be charged by SABESP directly to the USERS' account.

8.5. Taxes related to the Social Integration Program (PIS) and the Contribution for the Financing of Social Security (COFINS) are not included in the TARIFF REVENUE calculation and are applied directly to the tariff table. The effective PIS/COFINS rate incurred in the INITIAL TARRIF is 6.903%.

8.6. Public-Private Partnership Contracts

8.6.1. Considers the amounts actually paid by SABESP during PR0 (2023) relating to the contracts for the Alto Tietê Public-Private Partnership and São Lourenço Production System.

8.6.2. For the RR, the value of Public-Private Partnerships is the output of the sum of the amounts paid by SABESP in PR0 referring to the 2 (two) Public-Private Partnership projects.

8.6.3. The amount referred to in the previous subitem includes the calculation of the average INITIAL TARIFF, of R\$ 689.28 million, at June 2024 prices.

8.7. Asset Lease Contracts

8.7.1. Considers the amounts actually paid by SABESP during PR0 (2023) relating to asset lease contracts in force until December 2023 in the municipalities of Água Limpa, Campos do Jordão, São José dos Campos and Franca (Sapucaí).

8.7.2. For the RR, the value of asset lease contracts is the output of the sum of the amounts paid by SABESP in PR0 referring to the 4 (two) asset lease contracts.

8.7.3. The amount referred to in the previous subitem includes the calculation of the average INITIAL TARIFF, of R\$ 102.89 million, at June 2024 prices.

8.8. Transfers to MUNICIPAL FUNDS:

8.8.1. MUNICIPAL FUNDS were authorized by Federal Law 11,445/2007 (article 13), aimed at promoting funds to contribute to the universalization of SERVICES.

8.8.2. The calculation of the amount of transfer to MUNICIPAL FUNDS for determining the RR, for the purposes of calculating the INITIAL TARIFF, considers the following:

- (a) The percentage of transfer from the municipality provided for in ANNEX II – TECHNICAL ANNEX of each municipality is applied to its Tariff Revenue recorded in PR0, thus obtaining the transfer amount per municipality;
- (b) To this, we add the total transferred amount in PR0, for the purpose of determining the final transfer amount.

8.8.3. These revenues are calculated iteratively, as their amount simultaneously comprise the RR of the RP0 and is used in its measurement.

8.8.4. The transfer amount to MUNICIPAL FUNDS in RP0 totaled R\$ 607.05 million, at June 2024 prices.

8.8.5. For the purpose of determining the INITIAL TARIFF, the transfer amount to the MUNICIPAL FUNDS indicated in item 8.8.4 also includes funds that are not yet authorized by ARSESP on the EFFECTIVE DATE and excludes the portion of funds that have been ANTICIPATED.

8.8.6. The portion related to transfers to MUNICIPAL FUNDS that have not been approved by ARSESP by the EFFECTIVE DATE shall be considered a credit in favor of USERS, to be recorded in the LINKED ACCOUNT, whose operation is regulated in Appendix A of ANNEX V – REGULATORY MODEL.

8.9. Payment of fees for the use of water resources:

8.9.1. Considering that fee collection was instituted by article 5, item V, of Federal Law 9,433/1997, and that all the Hydrographic Basin Committees of the State of São Paulo have already instituted this collection for the use of water resources, making this an expense that cannot be managed by SABESP, the payment for the use of water resources adopted in the INITIAL TARIFF calculation corresponds to the amount actually spent by SABESP in RP0.

8.9.2. The amount considered for the RR calculation in RP0 is R\$ 96.26 million, at June 2024 prices.

8.10. Transfers to the research, development, and innovation program (RDI):

8.10.1. The percentage defined by ARSESP Resolution 920, of November 22, 2019, is maintained, in the amount of 0.05% (zero point five percent) of SABESP's REQUIRED REVENUE (RR), to be allocated to the research, development, and innovation program (RDI), applied SABESP's direct RR using the following equation:

$$RDI = 0.05\% \times RR$$

8.10.2. The calculation of the transfer to RDI programs is carried out iteratively, given that its amount simultaneously comprises the RR of the RP0 and is used in its measurement.

8.10.3. The amount transferred to RDI programs considered in the calculation of the INITIAL TARIFF is R\$ 11.40 million, at June 2024 prices.

8.10.4. The 0.05% percentage shall remain fixed during the ANNUAL ADJUSTMENTS during the 1st TARIFF CYCLE.

9. Chapter 9 - Calculation of RR: Capital Reinstatement

9.1. Capital reinstatement is considered as a component of the RR calculation in RP0. Its metric corresponds to the amount transferred to the INITIAL TARRIF seeking to restore the assets used to provide the SERVICES during its useful life.

9.2. The investment amounts to be reinstated into RP0 corresponds to the outcome from multiplying RABgross and RRQ, based on the following equations:

$$\text{Reinstatement of KPR0} = (RAB_{\text{grossaverage}} \times RRQRAB)$$

$$RRQRAB = \frac{1}{UL} \times \frac{1}{47.59} = 2.10\%$$

Where:

UL is the average physical useful life of the assets that comprise the RAB as of December 2023;

RABgrossaverage is the average REGULATORY ASSET BASE; and

RRQRAB is the Regulatory Reinstatement Quota for the assets that comprise the RAB in December 2023.

9.3. The RABgross used to calculate the Capital Reinstatement considers the assumptions described below.

9.3.1. For the purpose of calculating the capital reinstatement, the RABgross corresponds to the INITIAL Gross RAB and the FINAL RABgross for December 2022 and December 2023, respectively.

9.3.2. The FINAL RABgross is the outcome of the sum of the gross amounts for the incremental asset bases (with fixed assets from June 2019 to December 2023) and the shielded base (corresponding to the RAB of SABESP's 3rd Ordinary Tariff Review), minus utilization rates and asset write-offs.

9.3.3. When determining the INITIAL and FINAL RABgross, components related to municipalities not participating in URAE-1 must be segregated, so that only the asset base owned by the municipalities indicated in Annex I – MUNICIPALITIES SERVED are considered.

9.3.4. Asset ownership in cases of infrastructure sharing with municipalities not part of URAE-1, shall be determined according to the rules established in ARSESP's resolution.

9.3.5. The changes in RABgross considered the rules of ARSESP Resolution 941, of December 13, 2019. Therefore, the assets of the incremental base were valued through the Original Book Value (OBV) method or the New Replacement Value (NRV) for fixed assets in new municipalities that began to be operated by SABESP.

9.3.6. The RABgross amount used to calculate the INITIAL TARRIF excludes assets under PPP and asset lease contracts.

9.3.7. According to accounting information provided by SABESP, the FINAL RABgross, in December 2023, is estimated at R\$ 141,030.07 million and the INITIAL RABgross, in December 2022, is R\$ 134,055.07 million, resulting in an average RABgross of R\$ 137,542.57 million, at June 2024 prices.

9.3.8. Due to the use of SABESP's data for the gross Asset Base adopted in the INITIAL TARIFF calculation, a compensatory adjustment may be made, either higher or lower, to the TARIFF of the 1st TARIFF ADJUSTMENT due to any discrepancies between the accounting value of the RABgross and the ASSET EVALUATION REPORT, as provided for in Chapter 14.

9.3.9. The RABgross used in the INITIAL TARIFF calculation may only be shielded in the 1st TARIFF ADJUSTMENT, in 2025, after approval and validation of the ASSET EVALUATION REPORT by ARSESP.

9.3.10. The useful life is 47.59 years and represents the average physical useful life of the shielded and incremental asset bases until December 2023, considering the average technical useful lives of the LINKED ASSETS per Asset Unit, defined in ARSESP Resolution 941, of December 13, 2019. This average is weighted by the values of the respective assets.

9.3.11. With the Useful Life (UL) being 47.59 years, the RRQ of the Asset Base equals 2.10% and, therefore, the amount to be reinstated into the INITIAL TARIFF referring to the Asset Base is R\$ 2,890.12 million, at June 2024 prices.

9.4. The calculation for the gross COMPENSATION amount for the Capital Reinstatement considers the assumptions described below.

9.4.1. The total COMPENSATION amount for flooded areas is R\$ 137.6 million, at June 2024 prices, corresponding to 0.8% of the revenue of the Metropolitan Region of São Paulo in 2023, estimated at R\$ 17.2 billion (in Dec/2023), distributed among 15 municipalities according to the area (in km²), as shown in Table 6 of Appendix A of this ANNEX.

9.4.2. The INITIAL TARIFF will fully cover the COMPENSATION for flooded areas pursuant to ANNEX II – TECHNICAL ANNEXES, whose value must be fully reinstated into the tariffs until the advent of this CONTRACT, in 2060.

9.4.3. Considering that the total COMPENSATION amount is paid by SABESP, in 2024, and this amount will only be depreciated after its payment, there is no portion to be reinstated in the INITIAL TARIFF referring to COMPENSATION for flooded areas.

9.5. The calculation of the gross value of the ANTICIPATED portion of the MUNICIPAL FUNDS for Reinstatement of capital considers the assumptions described below.

9.5.1. The total ANTICIPATED amount is R\$ 2,590.50 million, at June 2024 prices. This amount represents the sum of the anticipated amounts, as shown in ANNEX II – TECHNICAL ANNEX.

9.5.2. The INITIAL TARIFF will fully cover the ANTICIPATED amounts, which shall be totally reinstated in the tariffs until the advent of the CONTRACT, in 2060, as described in Chapter 9 of ANNEX V – REGULATORY MODEL.

9.5.3. Considering that the total COMPENSATION amount is paid by SABESP in 2024, and this amount will only be depreciated after its payment, there is no portion to be reinstated in the INITIAL TARIFF referring to the ANTICIPATED portion of the MUNICIPAL FUNDS.

9.6. Therefore, the total capital amount to be reinstated in the INITIAL TARIFF IS R\$ 2,890.12 million, at June 2024 prices.

10. Chapter 10 - Calculation of the Regulatory Remuneration Rate

10.1. The REMUNERATION RATE, which is used in the calculation of the working capital requirement (WCR) and applies to the COMPENSATION, ANTICIPATED, and investment amounts not yet amortized (RABnet).

10.2. The regulatory remuneration rate adopted to calculate the INITIAL TARIFF is measured using the Weighted Average Cost of Capital (WACC) methodology before tax, whose calculation equation is described in Chapter 7 of ANNEX V – REGULATORY MODEL.

10.3. The cost of equity is calculated using the Capital Asset Pricing Model (CAPM) Country Spread Model, according to the equations described in Chapter 7 of ANNEX V – REGULATORY MODEL.

10.3.1. The risk-free rate of return, R_f , is referenced in the international market, considering:

- (i) Returns on the 10-year United States Treasury Bond (USTB10);
- (ii) Monthly data;
- (iii) A 30-year time frame. Includes data from January 1994 to January 2024;
- (iv) The average of the monthly values as a measure of central tendency.

10.3.2. The country risk premium, r_{Br} , considers:

- (i) The EMBI+Br (Emerging Markets Bond Index Plus) indexes;
- (ii) Monthly data;
- (iii) A 15-year time frame. Includes data from January 2009 to January 2024; and
- (iv) The average of the monthly values as a measure of central tendency.

10.3.3. The market rate of return used to calculate the market risk premium, R^* , is referenced in the international market, considering:

- (i) The average monthly return of the Standard & Poor's 500 (S&P500) index, which includes the 500 largest companies listed on the stock exchanges of the United States of America;
- (ii) Monthly data;
- (iii) A 30-year time frame. Includes data from January 1994 to January 2023;
- (iv) The average of the monthly values as a measure of central tendency.

10.3.4. Due to the limited number of Brazilian companies listed on the Stock Exchange and given that SABESP has shares traded on the New York Stock Exchange (NYSE) and NASDAQ, companies traded on the over-the-counter market were excluded from the sample, the beta parameter, β , is referenced in the international market, considering:

- (i) A sample of 11 companies in the US water distribution sector listed on the NYSE and NASDAQ. The list of companies used for calculating beta is presented in

(ii) Table 6 – Municipalities that will receive Compensation for flooded areas

Municipality	Area (km ²)
Biritiba Mirim	13.66
Bragança	13.43
Caieiras	0.13
Cotia	3.95
Embu Guaçu	0.76
Franco da Rocha	1.47
Itapeceira	0.90
Joanópolis	7.00
Mairiporã	5.35
Nazaré Pta	22.94
Piracaia	25.84
Salesópolis	29.1
São Paulo	27.75
Suzano	11.96
Vargem	13.64

(iii) Table 72

- (iii) Table 12 of Appendix A of this ANNEX;
- (iv) The beta measurement, obtained from the Bloomberg Professional platform, for each of the companies in the sample;
- (v) The average of the weekly beta over a 5-year time frame. Includes data from January 2018 to January 2022;

10.3.5. The CPI, the United States inflation rate, considers:

- (i) The price indexes Consumer Price Index for All Urban Consumers: All Items in U.S. City Average (CPI);

(ii) Monthly data;

(iii) A 30-year time frame. Includes data from January 1994 to January 2024;

(iv) The average of the monthly values as a measure of central tendency.

10.4. To calculate the cost of third-party capital, we adopt the Financial Benchmarking approach, referenced in the Brazilian market, using the following equation:

$$rd = rdeb + cede$$

Where:

r_d is the cost of third-party capital;

r_{deb} is the profitability of debentures in the Brazilian basic sanitation sector;

ce_{deb} is the cost for issuing debentures.

10.4.1. Considers the average return on debentures, r_{deb} , pegged to the CDI (Interbank Deposit Certificate) issued by companies in the basic sanitation sector in Brazil. This return is equivalent to the credit risk, considering a 10-year average (January 2014 to January 2024). The actual average rate (r_{deb}) in this period was 6.61%.

10.4.2. The cost of issuing debentures is equivalent to the issuance cost adopted by ANEEL to calculate the WACC in the 5th Periodic Tariff Review Cycle for electricity distributors, of 0.52%. From the perspective of the debenture issuer, the issuance cost corresponds to commissions paid to banks and brokers and expenses related to legal advisory, independent auditors, risk rating agencies, trustee, in addition to other costs incurred in the issuance process.

10.4.3. The amount of rd before taxes is used to calculate WACC, which was equal to 7.13%.

10.5. The capital structure used to calculate the WACC for P0 considers the ratio between Net Interest-Bearing Liabilities and the Regulatory Asset Base (RABnet) in December 2023 to determine the share of third-party capital costs.

10.5.1. The Net Interest-Bearing Liability, in the amount of R\$ 18,698.01 million, at December 2024 prices, corresponds to the sum of short- and long-term loans and financing, deducted from the cash and cash equivalents balance, which are obtained from the 2022 Annual Financial Statements.

10.5.2. The value of RABnet in December 2022 is equal to R\$ 79,166.48 million, at December 2024 prices.

10.5.3. Therefore, the third-party capital share is equal to 23.62%.

10.6. The final WACC to be applied to the Regulatory Remuneration Base (RRB) will be before taxes, calculated according to the following equation.

$$WACC_{BEFORE TAXES} = \frac{WACC_{AFTER TAXES}}{(1 - T)}$$

Where:

WACC BEFORE TAXES is the Regulatory Capital Remuneration Rate before taxes;

WACC AFTER TAXES is the Regulatory Capital Remuneration Rate after taxes; and

T is the sum of the Income Tax and Social Contribution (CSLL) rates over Net Income.

10.6.1. Considers the rates of 25% for Income Tax and 9% for CSLL, totaling 34%.

10.7. The pre-tax WACC adopted to calculate the return on capital is 11.91%, as demonstrated in Table 5. This value is used to determine the INITIAL TARIFF and must be kept constant in the annual ADJUSTMENTS of the 1st TARIFF CYCLE.

Table 5 - WACC

Parameters	Values
Actual Cost of Equity	8.84%
Risk-Free Rate	3.84%
Unlevered Beta	0.61
Re-levered Beta	0.73
Market Risk Premium (MRP)	7.17%
Market risk	11.01%
Risk-Free Rate for MRP	3.84%
Country Risk Premium	2.52%
USA inflation	2.53%
Actual Cost of Third-Party Capital before Taxes	7.13%
Return of Debentures	6.61%
Issue cost	0.52%
Actual Cost of Third-Party Capital after Taxes	4.71%
Equity Share	76.38%
Third-Party Capital Share	23.62%
Actual WACC after Taxes	7.86%
Actual WACC before Taxes	11.91%

11. Chapter 11 - Calculation of RR: Capital Remuneration

11.1. Capital remuneration is considered as a component of the cost of capital calculation, including for the REQUIRED REVENUE calculation. Its value results from the application of the WACC on the Regulatory Remuneration Base, which corresponds to the RABnet and the COMPENSATION and ANTICIPATED amounts not yet depreciations, plus the Working Capital Requirement (WCR), using the equation shown in item 8.1 of Chapter 8 of ANNEX V – REGULATORY MODEL.

11.2. For the purpose of calculating the capital remuneration, the RABnet corresponds to simple average of the INITIAL and FINAL RABnet values.

11.3. The RABnet used to calculate the Capital Reinstatement considers the assumptions described below.

11.3.1. For the purpose of calculating the capital reinstatement, the RABnet corresponds to the simple average between the INITIAL and FINAL RABnet for December 2022 and December 2023 (RP0), respectively.

11.3.2. The FINAL RABnet results from the FINAL RABgross, as described in item 9.3, deducted from the accumulated depreciation.

11.3.3. The RABnet calculation considered the rules of ARSESP Resolution 941, of December 13, 2019. As for the gross base, the assets of the net base were valued through the Original Book Value (OBV) method or the New Replacement Value (NRV) for fixed assets in new municipalities that began to be operated by SABESP.

11.3.4. According to accounting information provided by SABESP, the FINAL RABnet, in December 2023, is estimated at R\$ 78,704.89 million and the INITIAL RABnet, in December 2022, is R\$ 74,646.97 million, resulting in an average RABnet of R\$ 76,675.93 million, at June 2024 prices.

11.3.5. Due to the use of SABESP's data for the gross Asset Base adopted in the INITIAL TARIFF calculation, a compensatory adjustment may be made, either higher or lower, to the TARIFF of the 1st TARIFF ADJUSTMENT due to any discrepancies between the accounting value of the RABnet and the ASSET EVALUATION REPORT, as provided for in Chapter 14.

11.3.6. The RABnet used in the INITIAL TARIFF calculation may only be shielded in the 1st TARIFF ADJUSTMENT, in 2025, after approval and validation of the ASSET EVALUATION REPORT by ARSESP.

11.4. The calculation for the remuneration of the COMPENSATION amount considers the assumptions described below.

11.4.1. When calculating the INITIAL TARIFF, the full amount of the COMPENSATION for flooded areas is paid, since there is no depreciation of this amount in 2024, as provided for in item 9.4 of this ANNEX.

11.4.2. The total COMPENSATION amount for flooded areas is R\$ 137.60 million, at June 2024 prices, remunerated by a WACC of 11.91%, totaling R\$ 16.39 million covered by the INITIAL TARIFF.

11.5. The calculation for the remuneration of the ANTICIPATED portion of the MUNICIPAL FUNDS considers the assumptions described below.

11.5.1. When calculating the INITIAL TARIFF, the full amount of the COMPENSATION is remunerated, since there is no depreciation of this amount in 2024, as provided for in item 9.5 of this ANNEX.

11.5.2. The total ANTICIPATED amount is R\$ 2,590.50 million, at June 2024 prices, remunerated by a WACC of 11.91%, totaling R\$ 308.55 million covered by the INITIAL TARIFF.

11.6. The WCR is determined as a portion of the TARIFF REVENUE (TR1), defined by the percentage of the total WCR, based on the accounting balance sheets of RP0, according to the methodology defined in Chapter 8 of ANNEX V – REGULATORY MODEL.

11.6.1. To calculate the cash needed for working capital, we consider a 30-day period as the average period for receipts and payments. The inventories line comprises supplies for consumption and maintenance of the water and sewage systems. Does not include inventory of construction materials.

11.6.2. The total WCR percentage, adopted in the P0 calculation to be used in the ANNUAL ADJUSTMENTS for the 1st TARIFF CYCLE, is 0.27%, as shown in Table 7.

Table 7 – Percentage of total WCR to be applied to TR1

Parameters	Values	Calculation
1- Returns from short-term investments (R\$)	373,739	Account information in the balance sheet
2- Cash and cash equivalents (R\$)	838,338	Account information in the balance sheet
3- Financial investments (R\$)	2,425,921	Account information in the balance sheet
4- Average return	11.45%	$1/(2+3)$
5- IPCA (Extended Consumer Price Index)	4.62%	Index Dec-23/Dec-22
6- Actual average return	6.83%	Average return - IPCA
7- Direct Operating Revenue (R\$)	21,509,965	Account information in the balance sheet
8- Average receipt period (ARP) (days)	30	-
9- Customers (R\$)	1,792,497	Revenue x ARP/360
10- Operating Expenses (R\$)	10,364,900	Account information in the balance sheet
11- Average payment period (APP) (days)	30	-
12 - Operating Liabilities (R\$)	863,742	Operating Expenses x APP/360
13- Cash for working capital needs (R\$)	928,755	Customers - Operating Liabilities
14- Cash for working capital needs (%)	4.32%	Cash for working capital needs/direct operating revenue
15- Inventories (R\$)	85,953	Account information in the balance sheet
16- Inventories (%)	0.40%	Inventory/direct operating revenue
17- % WCR	4.72%	(Cash for working capital needs + inventory)/direct operating revenue
Remuneration on total WCR (%)	0.27%	Cash for working capital needs % x (WACC – average actual return) + inventory x WACC

11.6.3. The total WCR is calculated iteratively, as its amount simultaneously comprises the TR1 of the RP0 and is used in its measurement.

11.6.4. The WCR amount used in the average INITIAL TARIFF calculation is R\$ 60.50 million, resulting from the application of the total WCR % defined in item 11.6.2 over the BASE TARIFF REVENUE (TR1).

11.7. Total remuneration on capital is equal to R\$ 9,518.04 million, at June 2024 prices.

12. Chapter 12 - Calculation of the Financial Components

12.1. In the regulatory model adopted by ARSESP for SABESP's 3rd OTR approved by ARSESP Resolution 1,150, of April 8, 2021, it was foreseen that retroactive compensations may occur in annual adjustments, of transitory nature in the tariff composition. These compensations are called FINANCIAL COMPONENTS (FC) in this ANNEX.

12.2. Despite the transitory nature of FINANCIAL COMPONENTS in the TARIFF, the definition of a tariff under annual adjustment assumes reimbursement in favor of users or SABESP during the 12 months of its application. Therefore, the 2024 tariff adjustment approved by ARSESP Resolution 1,514, of April 8, 2024, prior to the TRANSACTION was calculated in a way that the amounts of the FINANCIAL COMPONENTS were reimbursed within the 12 months in which the application tariff was in effect.

12.3. The application tariff approved by ARSESP Resolution 1,514, of April 8, 2024, prior to the TRANSACTION, shall be effective between May 2024 and the EFFECTIVE DATE, which corresponds to a period shorter than the 12 months expected for reimbursement of the financial components of the 2024 tariff adjustment.

12.4. Given that some of the FINANCIAL COMPONENTS defined by ARSESP in the SABESP's 2024 tariff adjustment prior to its PRIVATIZATION constitute a right for the company or the user, regardless of the early termination of the last tariff cycle, and the INITIAL TARIFF (P0) covers the remaining portion of these components.

12.5. The financial components of the last tariff adjustment approved by ARSESP prior to the TRANSACTION, and which will be considered in the INITIAL TARIFF, are listed in the Table below:

FC considered in the INITIAL TARIFF	Monetary Amounts included in the INITIAL TARIFF (at June 2024 prices)
Incorrect calculation of PIS/COFINS	+ R\$ 0.015/m3
Temporary tariff exemption in the Municipality of São Sebastião due to calamity	+ R\$ 0.000/m3
Reversal of deductions relating to revenues from Commercial Programs for the years 2021, 2022 and 2023	+ R\$ 0.060/m3
Review of re-invoiced revenue amounts used to calculate the adjustment to the revenue ceiling in 2022	+ R\$ 0.013/m3
Reversal of the tariff affordability for compensatory adjustments from the anticipated deduction of the K Factor	- R\$ 0.036/m3
Subtotal	R\$ 0.054/m3
Application of the 2023 General Quality Index (GQI) of +0.072% on the average base tariff of R\$ 6.26/m3	+ R\$ 0.005/m3
TOTAL FC in the INITIAL TARIFF	R\$ 0.058/m3

12.6. The total remaining portion of the FC indicated in item 12.5, which was not paid in the

2024 adjustment tariffs approved by ARSESP until the EFFECTIVE DATE, will be

recovered through the INITIAL TARIFF between the EFFECTIVE DATE and December 2025, when the 1st TARIFF ADJUSTMENT will occur after the TRANSACTION comes into effect.

12.7. The remaining portion of the FC approved by ARSESP prior to the TRANSACTION coming into effect will be in monetary terms, considering:

12.8. The period in which the 2024 readjustment tariff approved by ARSESP will come into effect;

12.9. The period in which the application tariff for the 2024 adjustment approved by ARSESP will cease to be in force, considering that its validity should only end in April 2025. This period corresponds to the total number of months between the EFFECTIVE DATE, when the INITIAL TARIFF will come into effect, and April 2025;

12.10. The period in which the INITIAL TARIFF shall come into effect, which corresponds to the total number of months between December 2025 and the EFFECTIVE DATE.

12.11. The FINANCIAL COMPONENTS considered in the INITIAL TARIFF calculation is R\$ 0.058/m³, at June 2024 prices.

13. Chapter 13 - Calculation of TRepI

13.1. The Tariff Repositioning Index (TRepI) indicates the average variation in TARIFF. Since there is no change in the current tariff structure, this variation is equal to the TRepI for all SERVICES, user categories and consumption ranges.

13.2. The TRepI is defined based on the average INITIAL TARIFF (P0) and is applied to the CURRENT TARIFF to determine the INITIAL TARIFF per municipality and the APPLICATION TARIFF. The calculation is based on the following equation:

$$TRepI = \frac{P0}{P0 \text{ current in } PR0}$$

Where:

P0 is the average INITIAL TARIFF;

marketPR0 is the market reported by SABESP in RP0, and does not correspond to the historical consumption data;

P0 current in PR0 is the average tariff in effect in RP0, calculated based on the historical consumption on RP0.

13.3. The current average P0 for SABESP's water and sewage is calculated according to the following steps:

- a. The starting point is the average P0 per municipality listed in ANNEX I, defined according to the 2023 tariff table approved by ARSESP Resolution 1,395, of April 6, 2023 and on the historical consumption for the REFERENCE PERIOD of each municipality. It is assumed that the 2023 tariff schedule was in effect from January to December 2023;
- b. The average P0 per municipality is adjusted by the Tariff Repositioning Index (TRI) approved by ARSESP Resolution 1,514, of April 8, 2024, in the percentage of 6.4469%;

- c. The average P0 per municipality adjusted by the TRI of the 2024 adjustment is multiplied by the MEASURED VOLUMES of the REFERENCE PERIOD (2023) to obtain the average revenues of the municipalities which, when summed, result in SABESP's TR0, in the amount of R\$ 23,625.90 million, at June 2024 prices;
- d. The TR0 calculated in the previous item is divided by the total MEASURED VOLUME of 2023, in the amount of 3.572 billion m3, resulting in the current average P0 of R\$ 6.6148/m3.

13.4. Considering TR1, of R\$ 22,421.38 million, and TR0, of R\$ 23,625.90 million, the TRepI is -4.2167%. This percentage is applied to the CURRENT TARIFF to form the initial EQUILIBRIUM TARIFF for each municipality listed in ANNEX I – MUNICIPALITIES SERVED.

13.5. To calculate the INITIAL APPLICATION TARIFF, an adjusted average TRepI of -1.00% will be considered, as determined by the Government of the State of São Paulo.

13.5.1. The TRepI will be applied to the CURRENT TARIFF of each municipality listed in ANNEX I – MUNICIPALITIES SERVED for the INITIAL APPLICATION TARIFF.

13.5.2. Since revenue for the EFFECTIVE MARKET of RP1 with the INITIAL APPLICATION TARIFF will be different than the revenue with the INITIAL TARIFF, SABESP must record the difference in revenue in the LINKED ACCOUNT, whose rules are established in Appendix I of ANNEX V – REGULATORY MODEL.

14. Chapter 14 - Rules for COMPENSATORY ADJUSTMENTS for the 1st TARIFF ADJUSTMENT of the 1st TARIFF CYCLE

14.1. The calculation for the Tariff Adjustment Index (TAR) in the 1st ADJUSTMENT of the 1st TARIFF CYCLE must consider the accrued inflation in the period, considering the base date of the INITIAL TARIFF indicated in item 15.1 of this ANNEX and the base date of when the tariffs were approved.

14.2. When the 1st TARIFF ADJUSTMENT occurs, ARSESP must consider two types of COMPENSATORY ADJUSTMENTS, one referring to the end of SABESP's 4th Tariff Cycle prior to its PRIVATIZATION PROCESS and another referring to possible differences in the amounts used to calculate the TR1 in the INITIAL TARIFF.

14.3. The COMPENSATORY ADJUSTMENTS mentioned in this ANNEX are of a transitory nature in the TARIFF and are not exhaustive.

14.4. Calculation of the Compensatory Adjustment for the 4th Tariff Cycle

14.4.1. In the approval of SABESP's last Ordinary Tariff Review, referring to the 4th Tariff Cycle, a COMPENSATORY ADJUSTMENT was foreseen to occur at the end of the 4th TARIFF CYCLE for the following items detailed in NT.F-0016-2021:

- a) A reduction, affecting direct revenues, of the amounts actually received during the tariff cycle that started in 2021 and ended on the EFFECTIVE DATE, with invoices for monitoring services, collection and/or treatment of non-residential effluents and the application of the pollutant load factor, toxicity or discharge flow for release into the public sewage system (K FACTOR);

- b) The sharing of amounts effectively earned during the tariff cycle through alternative revenues, which include activities for supplemental, ancillary, and with associated projects;
- c) An adjustment to include effective payment values for the use of water resources;
- d) The actual expenditures with Municipal Funds for Basic Sanitation in the approved municipalities, limited to 4% of direct municipal revenues;
- e) The monitoring of expenses with Third Party Services (referring to the extra amount of R\$ 300 million included in the cycle);
- f) The effective amounts of bonuses not related to capital costs in performance contracts;
- g) The effective amounts paid relating to PPP costs and asset leases;
- h) The effective amounts approved by ARSESP for Research, Development and Innovation;
- i) An adjustment of the Regulatory Remuneration Base, including fixed assets, write-offs, depreciation and effective working capital;
- j) The effective accounting depreciation to calculate Corporate Income Tax (IRPJ) and Social Contribution (CSLL) on Net Income; and
- k) IRPJ and CSLL: updated due to changes in their components.

14.4.2. ARSESP will calculate the COMPENSATORY ADJUSTMENT associated with the early termination of the 4th TARIFF CYCLE on the EFFECTIVE DATE, observing the calculation rules established in NT.F-0016-2021.

14.5. Calculation of the Compensatory Adjustment of the INITIAL TARIFF

14.5.1. In the TARIFF for the 2025 TARIFF ADJUSTMENT, there may be the inclusion of COMPENSATORY ADJUSTMENTS due to possible differences between the accounting values reported by SABESP for RABgross and RABnet used to calculate the INITIAL TARIFF and the values approved by ARSESP in light of the ASSET EVALUATION REPORT, using 2023 as the reference period.

14.5.2. The COMPENSATORY ADJUSTMENT amount for the INITIAL TARIFF must be capitalized by the WACC established in Chapter 10.

15. Chapter 15 - General Provisions

15.1. All monetary values shown in this ANNEX consider June 2024 prices.

15.2. The average INITIAL TARIFF determined in this ANNEX substitutes the BALANCE TARIFF that would be calculated by ARSESP, within the scope of SABESP's 4th Ordinary Tariff Review, scheduled to be approved in May 2025, if the PRIVATIZATION PROCESS is not executed. The cancellation of this tariff process is only valid for the municipalities listed in ANNEX I – MUNICIPALITIES SERVED of the CONTRACT.

15.3. The average initial APPLICATION TARIFF defined in this ANNEX must come into effect between the EFFECTIVE DATE and December 2025, when the tariffs for the 1st ANNUAL TARIFF ADJUSTMENT will be approved by ARSESP after the TRANSACTION is completed.

Appendix A – Tables of Values

Table 8 – Data on total OPEX and unit costs in RPO (SABESP)

Purpose	Stage	Driver	Driver 2023	Regulatory Unit Cost RPO
Personnel & Third-Party Services	Production	Water Volume Produced	2,411,286,576.94 m ³	R\$ 0.42/m ³
General Supplies	Production	Water Volume Produced	2,411,286,576.94 m ³	R\$ 0.04/m ³
Treatment Supplies	Production	Water Volume Produced	2,411,286,576.94 m ³	R\$ 0.20/m ³
Electricity	Production	Water Volume Produced	2,411,286,576.94 m ³	R\$ 0.38/m ³
General Expenses	Production	Water Volume Produced	2,411,286,576.94 m ³	R\$ 0.02/m ³
Personnel & Third-Party Services	Distribution	Water Connections	9,246,371 connections	R\$ 146.46/connection
General Supplies	Distribution	Water Connections	9,246,371 connections	R\$ 14.04/connection
Treatment Supplies	Distribution	Water Volume Measured	1,832,582,618.23 m ³	R\$ 0.00/m ³
Electricity	Distribution	Water Volume Measured	1,832,582,618.23 m ³	R\$ 0.19/m ³
General Expenses	Distribution	Water Connections	9,246,371 connections	R\$ 10.15/connection
Personnel & Third-Party Services	Collection	Sewage Connections	8,021,670 connections	R\$ 148.54/connection
General Supplies	Collection	Sewage Connections	8,021,670 connections	R\$ 11.08/connection
Treatment Supplies	Collection	Sewage Volume Collected	1,656,450,751.70 m ³	R\$ 0.00/m ³
Electricity	Collection	Sewage Volume Collected	1,656,450,751.70 m ³	R\$ 0.08/m ³
General Expenses	Collection	Sewage Connections	8,021,670 connections	R\$ 9.63/connection
Personnel & Third-Party Services	Treatment	Sewage Volume Treated	1,174,030,008.46 m ³	R\$ 0.59/m ³
General Supplies	Treatment	Sewage Volume Treated	1,174,030,008.46 m ³	R\$ 0.06/m ³
Treatment Supplies	Treatment	Sewage Volume Treated	1,174,030,008.46 m ³	R\$ 0.12/m ³
Electricity	Treatment	Sewage Volume Treated	1,174,030,008.46 m ³	R\$ 0.19/m ³
General Expenses	Treatment	Sewage Volume Treated	1,174,030,008.46 m ³	R\$ 0.02/m ³
Personnel & Third-Party Services	Commercial	Water Connections	9,246,371 connections	R\$ 79.76/connection
General Supplies	Commercial	Water Connections	9,246,371 connections	R\$ 0.82/connection
Treatment Supplies	Commercial	Water Connections	9,246,371 connections	R\$ 0.00/connection
Electricity	Commercial	Water Connections	9,246,371 connections	R\$ 0.11/connection
General Expenses	Commercial	Water Connections	9,246,371 connections	R\$ 0.27/connection
Personnel & Third-Party Services	Central Management	Equal to 1	1	R\$ 37,210,464.64
General Supplies	Central Management	Equal to 1	1	R\$ 191,485.40
Treatment Supplies	Central	Equal to 1	1	R\$ 30.05

	Managemen t			
Electricity	Central Managemen t	Equal to 1	1	R\$ 116,723.23
General Expenses	Central Managemen t	Equal to 1	1	- R\$ 256,974.43

Table 9 – Description of the disallowed accounting accounts

Nature/Purpose	Description
Personnel & Third-Party Services	Estimated personnel expenses
	FGTS (fine)
	Incentive compensation
	Paid sabbatical leave
	Private pension - Pension deficit BD
	PROVISION - FGTS
	PROVISION - INSS
	Provision - retirement (current)
	Provision - Executive Board Bonus
	Provision - Vacation Bonus
	Provision for Christmas bonus - management
	Provision for Christmas bonus
	Provision for vacation
	Provision for Profit sharing
	Consent Decree - retirees
	Estimated service expenses
	Environment - environmental compensation
	Environment - recovery commit. term - services
	Reused water
Treatment Supplies	Estimated treatment materials
General Supplies	Estimated expenses with materials
	Environment - environmental compensation
Electricity	Estimated electricity expenses
General Expenses	Institutional support
	AVP (service stations) - liability agreements
	Donations
	Estimated water invoices receivable
	Estimated general expenses
	Compensation to third parties (vehicles)
	Compensation arising from agreements
	Compensation for environmental damage
	Compensation for labor agreements
	Compensation for damage to third parties
	Regulatory inspection fines - ARSESP
	Traffic fines
	Provision for civil contingencies
	Provision for contingencies - customers
	Provision for contingencies - suppliers
	Provision for other civil contingencies
	Provision for labor contingencies
	Provision for environmental contingencies
	Provision for tax contingencies
	Provision for sundry losses

Table 10 – Technical Efficiency estimated by the DEA model for each service provider in the sample

Service Provider	
AGESPISA	53.89%

CAEMA	65.60%
CAER	94.84%
CAERD	49.30%
CAERN	74.16%
CAESA	81.90%
CAESB	57.34%
CAGECE	97.68%
CAGEPA	68.33%
CASAL	71.40%
CASAN	72.41%
CEDAE	94.00%
CESAN	91.93%
COMPESA	85.48%
COPANOR	91.36%
COPASA	96.90%
CORSAN	70.19%
COSANPA	63.40%
DEPASA	82.04%
DESO	57.08%
EMBASA	88.78%
SABESP	91.34%
SANEAGO	93.79%
SANEATINS	100.00%
SANEPAR	87.55%
SANESUL	64.85%

Table 6 – Municipalities that will receive compensation for flooded areas

Municipality	Area (km2)
Biritiba Mirim	13.66
Bragança	13.43
Caieiras	0.13
Cotia	3.95
Embu Guaçu	0.76
Franco da Rocha	1.47
Itapecerica	0.90
Joanópolis	7.00
Mairiporã	5.35
Nazaré Pta	22.94
Piracaia	25.84
Salesópolis	29.1
São Paulo	27.75
Suzano	11.96
Vargem	13.64

Table 72 – U.S. companies considered in the Beta calculation

Ticker	Name
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AWR US	AMERICAN STATES WATER CO
CWT US	CALIFORNIA WATER SERVICE GRP
ARTNA US	ARTESIAN RESOURCES CORP-CL A
MSEX US	MIDDLESEX WATER CO
CTWS US	CONNECTICUT WATER SVC INC
YORW US	YORK WATER CO
SJW US	SJW GROUP
GWRS US	GLOBAL WATER RESOURCES INC
CWCO US	CONSOLIDATED WATER CO-ORD SH
PCYO US	PURE CYCLE CORP
AWK US	AMERICAN WATER WORKS CO INC

Table 83 – Summary Calculation for the INITIAL TARIFF

Calculation Components	Values
1- K Factor Revenue	R\$ 234.16 million
2- Additional Revenue	R\$ 66.47 million
3- Supplemental Revenue	R\$ 84.49 million
4- REQUIRED REVENUE RP0	R\$ 22,806.50 million
4.1- Unrecoverable Revenue	R\$ 369.95 million
4.2- Operational Expenses	R\$ 8,521.50 million
4.3- PPP and Asset Lease	R\$ 792.17 million
4.4- Municipal Funds (FMSAI)	R\$ 607.05 million
4.5- Use of Water Resources	R\$ 96.26 million
4.6- RDI	R\$ 11.40 million
4.7- Capital Remuneration (CR) + WCR	R\$ 9,518.04 million
4.8- Capital Reinstatement	R\$ 2,890.12 million
5- BASE TARIFF REVENUE 1 (TR1) (4-1-2-3)	R\$ 22,421.38 million
6- Measured Volume in RP0 - water and sewage	3,571.67 million m3
5- BASE TARIFF REVENUE 0 (TR0) (4-1-2-3)	R\$ 23,625.90 million
8- Average Current Tariff (7/6)	R\$ 6.61/m3
9- Average INITIAL TARIFF (9.1+9.2)	R\$ 6.34/m3
9.1- P0 average (5/6)	R\$ 6.28/m3
9.2- Financial Components	R\$ 0.058/m3
10- TRepI (9/8)	-4.22%

APOSTILLE TERM FOR CONTRACT 01/2024

Annex VIII – Initial Tariff Formation, pursuant to Technical Note SEMIL/SPI 002/2024 and Order 001/2024 – URAE – Southeast1, contained in SEI process 020.00011836/2023-60, also available on the website "<https://semil.sp.gov.br/desestatizacaosabesp/conselho-deliberativo-urae-1/>".

DELIBERATIVE COUNCIL OF THE REGIONAL UNIT FOR SUPPLY OF DRINKING
WATER AND SEWAGE SERVICES 1 – URAE 1 - SOUTHEAST

ORDER 01/2024/URAE 1 - SOUTHEAST


São Paulo, on the date of the digital signature

Process: 020.00011836/2023-60

Subject: Apostille of Annex VIII – Initial Tariff Formation. Technical Note SEMIL/SPI 002/2024.

1. For the reasons and grounds established in Technical Note SEMIL/SPI 002/2024, and considering the provisions of article 7, paragraphs 1, 2 and 6, of Decree 66,289, of December 2, 2021, as amended by Decree 67,880, of August 15, 2023, in article 9 of the Internal Regulations approved by Resolution CD URAE 1 – SOUTHEAST 01/2024, Resolution CD URAE 1 – SOUTHEAST 05/2024, and in Title I (1) of Concession Agreement 01/2024, we proceed with the apostille, in the form proposed in the aforementioned Technical Note.

2. To the Executive Secretary of URAE 1 – SOUTHEAST, for communication to the members of the Deliberative Council, and disclosure on the website
"<https://semil.sp.gov.br/desestatizacaosabesp/conselho-deliberativo-urae-1/>".

Documento assinado digitalmente
 NATÁLIA RESENDE ANDRADE ÁVILA
Data: 07/06/2024 01:45:47-0300
Verifique em <https://validar.iti.gov.br>

NATÁLIA RESENDE ANDRADE ÁVILA
Coordinator of URAE-1



São Paulo State Government
Secretary of Environment, Infrastructure and Logistics Sub-Secretary of
Water Resources and Basic Sanitation

TECHNICAL NOTE

TECHNICAL NOTE SEMIL/SPI 002/2024

Process: 020.00011836/2023-60

Subject: Apostille of Annex VIII – Initial Tariff Formation.

1. EXECUTIVE SUMMARY

This is a Technical Note prepared jointly by the Sub-Secretary of Water Resources and Basic Sanitation of the Secretary of Environment, Infrastructure and Logistics - SEMIL and by the Special Projects Coordination of the Secretary of Investment Partnerships - SPI, under the purpose of substantiating the apostille for the adjustment/rectification of numerical values of Annex VIII – Initial Tariff Formation, referring to Concession Agreement 01/2024, signed between the Regional Unit for Supply of Drinking Water and Sanitation Services – URAE 1 and SABESP, in view of the provisions of Sabesp Official Letter 005/2024 and the Technical Note of the International Finance Corporation – IFC.

2. APPLICABLE LEGISLATION

- Federal Law 11,445/2007 – *Legal Sanitation Framework*.
- Federal Law 14,026/2020 – *New Basic Sanitation Framework (NMSB)*.
- Federal Law 13,465/2017 – *provides for rural and urban land regularization*
- State Law 17,853/2023 - *authorizes the Executive Branch of the São Paulo State to promote privatization measures of SABESP.*
- State Law 17,383/2021 - *provides for the creation of regional basic sanitation units.*
- State Decree 66,289/2021 – *governs State Law 17,383/2021*
- State Decree 67,880/2023 – *amends Decree 66,289/2021.*

3. HISTORY

On May 20, 2024, the first meeting of the Deliberative Council of URAE 1 – Southeast was held, at which time the following resolutions were approved:

- (i) RESOLUTION CD URAE 1 – SOUTHEAST 01: Approves the Internal Regulations of the Deliberative Council of the Regional Unit for Supply of Drinking Water and Sanitation Services - URAE 1 - Southeast.
- (ii) RESOLUTION CD URAE 1 – SOUTHEAST 02: Approves the Regional Basic Sanitation Plan of the Regional Unit for Supply of Drinking Water and Sanitation Services - URAE 1 - Southeast.
- (iii) RESOLUTION CD URAE 1 – SOUTHEAST 03: Defines the Regulatory Agency for Public Services of the State of São Paulo - ARSESP as the entity responsible for regulating and supervising the services covered by the Concession Agreement to be signed between the Regional Unit for Supply of Drinking Water and Sanitation Services - URAE 1 – Southeast and Companhia de Saneamento Básico do Estado de São Paulo – SABESP.
- (iv) RESOLUTION CD URAE 1 – SOUTHEAST 04: Approves the signing of a concession agreement between URAE-1 – Southeast and Companhia de Saneamento Básico do Estado de São Paulo – SABESP.
- (v) RESOLUTION CD URAE 1 – SOUTHEAST 5: Elects the Coordinator and respective Deputy of the Regional Unit for Supply of Drinking Water and Sanitation Services - URAE 1 - Southeast.

With the approval of all the aforementioned resolutions, the concession agreement replacing other contracts in force was signed, on May 24, between the Company and the Regional Unit for Supply of Drinking Water and Sanitation Services - URAE 1 - Southeast, with the Regulatory Agency for Public Services of the State of São Paulo - ARSESP as a consenting party.

4. ANALYSIS

The draft Concession Agreement and annexes submitted for consideration to the deliberative board of URAE 1 indicated, in particular in item 6.1.1_ of Annex IV – Tariff Annex ^[1] and Annex VIII in its entirety, that specific amounts would be filled once the definitive list of Municipalities that joined URAE 1 – Southeast is known and whose basic sanitation services shall be governed by the Concession Agreement approved at the time.

Within this context, once the list of Municipalities was consolidated, at the meeting held on May 20, 2024, the date on which the Municipality of Campo Limpo Paulista adhered and the Municipality of Miguelópolis exited the Regional Unit for Supply of Drinking Water and Sanitation Services - URAE 1 - Southeast – URAE 1, the aforementioned values were filled for Annex VIII – Initial Tariff Formation, which was then published.

The reason being that, with the definition of the number of Municipalities adhering to URAE 1, it became feasible to calculate the average equilibrium price for the water and sewage services under the agreement, and thus the initial equilibrium tariff, allowing the final drafts of the agreement and its annexes to be consolidated for signature.

After the signing of the agreement was announced, SABESP requested, through Official Letter 005/2024, received by SEMIL on June 06, 2024 and filed within the scope of the referred process, the redistribution of the volumes reported by the Strategy Superintendence (PI) in the market data to correct the proportional distribution of mixed connections, allocating the distribution of this volume according to the existing residential and non-residential units. For this, the market data (volumes measured and billed) was resubmitted with the correct allocation of the volume originating from mixed connections, reviewed by the Strategy Superintendence (PI), for assessment and possible adjustments.

When analyzing the database sent by SABESP, attached to the aforementioned Official Letter, the IFC confirmed that, although the total market volume had not changed and continued to adhere to the historical information disclosed by the Company (particularly in the 2023 annual financial statements), the volume composition between categories was adjusted, with the measured volume of the residential water category increasing from 1,601 million m³ (86.23%) to 1,622 million m³ (87.38%), and the non-residential category from 255 million m³ (13.77%) to 234 million m³ (12.62%), corresponding to an increase of 1.32% in the measured water volume for the residential category, and a reduction of 8.29% for the non-residential category. When analyzing the behavior of this variable for sewage volume, the residential category changed from 1,415 million m³ (84.84%%) to 1,434 million m³ (85.93%%) and the non-residential category from 253 million m³ (15.16%) to 234 million m³ (14.07%%), corresponding to an increase of 1.29% in measured sewage volume for the residential category, and a reduction of 7.23% in the non-residential category, as presented in the table below.

<u>2023</u>	<i>PI</i>	<i>Share by Category</i>	<i>Adjusted PI (Mixed Category)</i>	<i>Share by Category</i>	<i>Data Variation (PI x adjusted PI)</i>
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Volume of Water Measured	1,857,234,414		1,857,234,414		0.00%
Residential	1,601,567,592	86.23%	1,622,770,915	87.38%	1.32%
Non-Residencial	255,666,822	13.77%	234,463,499	12.62%	-8.29%
Volume of Sewage Measured	1,668,861,252		1,668,861,252		0.00%
Residential	1,415,841,785	84.84%	1,434,122,695	85.93%	1.29%
Non-Residencial	253,019,467	15.16%	234,738,557	14.07%	-7.23%
Permissionaire	53,992,731		53,992,731		0.00%
Total Volume Measured	3,580,088,397		3,580,088,397		0.00%
Total Billed Volume	4,206,148,002		4,206,148,002		0.00%

Furthermore, upon receiving the aforementioned information and verifying the entire regulatory model, the IFC found, once again, that the calculation of TRepI and the initial equilibrium tariff presented was correct. However, with the aforementioned input information coming from the SABESP database, with the reallocation of mixed units between residential and non-residential categories, the updated TRepI was -4.22% instead of -6.40%. In other words, by reallocating mixed units that were previously considered to be non-residential into residential and non-residential units, a lower Base Tariff Revenue was obtained, of approximately 2%. This is because the average revenue for residential units is lower than non-residential units. The table below shows a comparison between the values filled in Annex VIII after the URAE-1 deliberation and the values resulting from the new information made available by SABESP.

Calculation Components	Values published in ANNEX VIII	New Values from reviewed data
1. K Factor Revenue	R\$ 234.16 million	R\$ 234.16 million
2. Additional Revenue	R\$ 66.47 million	R\$ 66.47 million
3. Supplemental Revenue	R\$ 84.49 million	R\$ 84.49 million
4. REQUIRED REVENUE PRO	R\$ 22,806.23 million	R\$ 22,806.50 million
4.1- Unrecoverable Revenue	R\$ 369.95 million	R\$ 369.95 million
4.2- Operational Expenses	R\$ 8,521.83 million	R\$ 8,521.50 million
4.3- PPP and Asset Lease	R\$ 792.17 million	R\$ 792.17 million
4.4- Municipal Funds (FMSAI)	R\$ 606.47 million	R\$ 607.05 million
4.5- Use of Water Resources	R\$ 96.26 million	R\$ 96.26 million
4.6- RDI	R\$ 11.40 million	R\$ 11.40 million
4.7- Capital Remuneration (CR) + WCR	R\$ 9,518.04 million	R\$ 9,518.04 million

4.8- Capital Reinstatement	R\$ 2,890.12 million	R\$ 2,890.12 million
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5. BASE TARIFF REVENUE 1 (TR1) (4-1-2-3)	R\$ 22,421.12 million	R\$ 22,421.38 million
6. Measured Volume in RP0 - water and sewage	3,571.67 million m3	3,571.67 million m3
7. BASE TARIFF REVENUE 0 (TR0)	R\$ 24,176.67 million	R\$ 23,625.90 million
8. Average Current Tariff (7/6)	R\$ 6.77/m3	R\$ 6.61/m3
9. Average INITIAL TARIFF (9.1+9.2)	R\$ 6.34/m3	R\$ 6.34/m3
9.1- <i>P0 average</i> (5/6)	R\$ 6.28/m3	R\$ 6.28/m3
9.2- <i>Financial Components</i>	R\$ 0.058/m3	R\$ 0.058/m3
10- TRepI (9/8)	-6.40%	-4.22%

Within the context of the procedural investigation, the IFC, responsible for carrying out the privatization studies, recommended the adjustment/rectification of the numerical values presented in Annex VIII, as indicated above.

Furthermore, as highlighted by the IFC, the aforementioned substitution of the numerical values contained in Annex VIII was exclusively due to the recalculation of the initial tariff and other related parameters, **maintaining the rules and contractual terms approved by the Deliberative Council of URAE 1 – Southeast unchanged**. Furthermore, the IFC highlights that, to define the initial tariff, Sabesp's official historical information was used, published by the Strategy Superintendence (PI), linked to the Company's Presidency, in line with the information contained and published in its audited financial statements.

Within this context, corroborating the IFC's statements, we recommend the adjustment/rectification of numerical values in Annex VIII in accordance with the attached documents, highlighting that: (i) there was no change in the bases and contractual terms deliberated at the URAE meeting on May 20; (ii) the approved methodology was maintained and unchanged; and (iii) the adjustments required by the Company and addressed by the IFC are exclusively related to the redistribution of the market relative to the mixed units, those that share connections among residential and non-residential units, in such a way that its correct distribution reflects the accurate average equilibrium price, which could only be calculated and consolidated in the contract after defining the number of Municipalities adhering to URAE1, which occurred on May 20, 2024. This measure is necessary to ensure the consistency of the tariff repositioning index (TRepI), which can only be calculated after resolved by URAE1.

Therefore, the adjustment/rectification proposed herein, given it does not change any rule or contractual term and only requires the recalculation of figures in Annex VIII, which could only be achieved after defining the number of Municipalities adhering to URAE1, which occurred on May 20, 2024, may be carried out by apostille in the records, that is, without the need for new resolution by URAE1.

[1] “6.1.1. The specific values of the APPLICATION TARIFFS referenced in Tables 1 to 9 below adopt the following assumptions and consider: (i) as reference tariff values, for the purpose of applying discounts by the STATE, those in force under the terms of ARSESP Resolution 1,514/2024 and SABESP Notice 01/2024; (ii) that the CONTRACT will be followed by all MUNICIPALITIES listed in Annex I – MUNICIPALITIES SERVED; (iii) the discount amount granted by the STATE is linked to the definitive list of MUNICIPALITIES to be included in Annex I - MUNICIPALITIES SERVED after the EFFECTIVE DATE, with SABESP hereby authorized to communicate the new values to USERS, after determining the discount according to item (iii) of this item 6.1.1; and (iv) this will be in effect until the 1st ADJUSTMENT by means of a notice, issued under the terms of article 28 of State Decree 41,446/1996.”

5. CONCLUSION

In view of the above, it is recommended that an apostille be made to adjust/rectify numerical values in Annex VIII – Initial Tariff Formation, as detailed in this note and in the attached extract, which accompanies this statement, and subsequently communication to the members of the Deliberative Council of URAE 1 – Southeast, and disclosed on the website <https://semil.sp.gov.br/desestatizacaosabesp/conselho-deliberativo-urae-1/>.

As mentioned, the contractual bases and terms decided at the URAE meeting, on May 20, remain unchanged, as well as the approved methodology, and all information corresponds to the ones contained and published in the Company's audited financial statements.

SAMANTA SOUZA Subsecretary of Water Resources and Basic Sanitation at SEMIL	DAVID POLESSI DE MORAES Coordination Office of Special Projects of the SPI
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I agree with the Technical Note prepared by those responsible for the Sub-Secretary of Water Resources and Basic Sanitation of SEMIL and the Special Projects Coordination of SPI, and with the continuation of the adjustment/rectification through apostille and its subsequent disclosure.

RAFAEL CREN BENINI

Secretary of Partnerships in Investments - SPI



Document electronically signed by **Samanta Ivonete Salvador Tavares De Souza, Subsecretary**, on 06/07/2024, at 01:18 a.m. (Brasília official time), based on [State Decree 67,641, of April 10, 2023](#).



Document electronically signed by **Rafael Benini, Secretary of State**, on 06/07/2024, at 01:26 a.m. (Brasília official time), based on [State Decree 67,641, of April 10, 2023](#).

Document electronically signed by **David Polessi de Moraes,**

Coordinator, on 06/07/2024, at 01:27 a.m. (Brasília official time), based on [State Decree 67,641, of April 10, 2023](#).



The authenticity of this document can be checked on the website https://sei.sp.gov.br/sei/controlador_externo.php?acao=documento_conferir&id_orgao_acesso_externo=0, entering "código verificador" **0030071017** and "código CRC" **6FC37562**.

June 06, 2024.

To: Secretary of Partnerships and Investments (SPI), State of São Paulo (Mr. Secretary Rafael Antonio Cren Benini/ Mr. David Polessi de Moraes) and Secretary of Environment, Infrastructure and Logistics (Mrs. Secretary Natália Resende Andrade Ávila/ Ms. Sub-secretary Samanta Souza)

From: International Finance Corporation (IFC)

Re: Contract 607886. Technical Note – Receipt of Information on SABESP for the Company's privatization project.

TECHNICAL NOTE

1. Introduction of a New Regulatory Model

SABESP's current tariff regulation model, with forward-looking characteristics, determines the economic-financial equilibrium tariff for services based on tariff cycle projections, in accordance with the Company's own business plan, in such a way that the tariff incorporates market data and investments planned for the upcoming 4 years and has not yet been carried out. In each periodic tariff review event (which occurs every 4 years in the current model), compliance with the approved investment plan is reviewed (any differences between projections and actual investments are offset) and a new tariff cycle is defined, with the approval of the equilibrium tariff for the following tariff cycle. Therefore, in the current model, the regulatory agency only certifies the reasonableness of the projected variables during the review processes, given that the model is "forward looking", and any differences between financial amounts are adjusted at the end of each cycle.

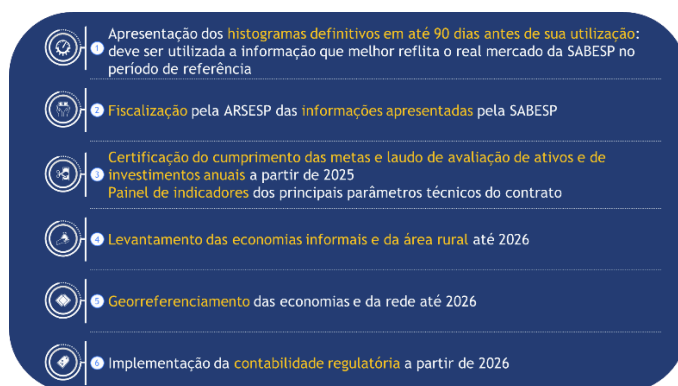
As widely debated since the beginning of the SABESP project, the current model does not encourage investment. This gap becomes even more relevant in a scenario of mandatory universalization, which is required under the sector's new regulatory framework, and will demand R\$ 64.490 billion between 2024 and 2029 (at June 2024 prices; and nearly R\$ 68 billion at December 2023 prices). For this reason, a change to a backward-looking model was proposed, which offers greater incentive for investing given that, in this type of model, the tariff is adjusted only after investments are made and certified. In this model, the economic-financial equilibrium tariff is calculated based on historical data, considering only the market, non-manageable costs and investments effectively incurred in a reference period of twelve months for the price formation.

Thus, in the new backward-looking model, the agency will need to conduct a certification process on the Company's general information, both in terms of the market and investments, as well as in achievement of goals, to align tariff/revenue growth and costs (Totex) for providing services. Given the elevated level of investments estimated for universalization of services, during the first two tariff cycles (10 years), the amounts collected will be annually incorporated

in tariffs, in which any possible adjustment will cause immediate effects due to the evolution in collecting and consolidating data by the parties involved. Furthermore, the new regulatory model has instruments that encourage efficiency gains by allowing the Company to capture a large portion of these gains during the first cycles, as well as establishing contractual criteria for sharing gains related to ancillary activities and associated projects, in addition to the contractual clauses establishing that, as of the 2nd Cycle, revenue sharing with the K Factor may be less than 100%. Therefore, the proposed model encourages the difference between the results achieved and the regulatory results to be reduced over time.

We highlight that the starting point under the new model, that is, the definition of the initial tariff, used SABESP's official historic information disclosed by the Strategy Superintendence (PI), linked to the Company's Presidency. The information is in line with the data contained and published in the Company's audited financial statements. It is also important to state that we took great technical care in building a model in which many pieces of information, not only for calculating the initial tariff, but also for determining, monitoring and achieving coverage targets, were coherent among themselves and originated from the same information base, in this case, the data published by the Strategy Superintendence (market database). In fact, the operationalization of the new regulatory model will rely on a single, auditable database of the values/amounts actually realized for the main variables (CAPEX, Volume/Revenue, Market, coverage rates, service quality, product quality, losses, OPEX, etc.), which was observed in this process.

Additionally, an assumption in SABESP's new concession agreement with URAE 1 is that the process of consolidating the Company's database will continue to evolve, with the introduction of independent certifiers and other elements, allowing ARSESP to fully execute its regulation. The new concession agreement establishes rules for providing consolidated information by SABESP, which reflect its real market in the reference period, with extensive monitoring by ARSESP through certification, regulatory accounting, a panel indicating the main technical parameters of the agreement, georeferencing of connections and units, as well as expansion in service coverage.



Specifically for market data, according to the new concession agreement, the Company will have to present the regulator historical records of all market information, including historical definitive consumption, with a 90-day shift for any adjustments on reformed or canceled values, reflecting the Company's actual collection amount for each month and the performance for the reference year. Standardized accounting information on costs and revenues by implementing a Regulatory Accounting, by 2026, will contribute to ARSESP's oversight of the historical data reported by the Company. There is also a provision to certify the results made available by the Company, so that field measurements can be made to verify the evolution of service coverage, attesting to the universalization of access to water supply and sanitation services in each of the municipalities served. This certification will assist ARSESP in its fundamental role, which is to monitor the information made available by the Company, a process which will be improved through the use of technological tools for the remote monitoring of the conditions under which services are provided.

To form the initial equilibrium tariff, it was necessary to define which municipalities in URAE 1 – Southeast would adhere to the new concession agreement. On May 20, 2024, the date of URAE1's first meeting for its Deliberative Council, a total of 371 adhesions to the new concession agreement were confirmed.

After defining the number of Municipalities adhering to URAE 1, it became feasible to calculate the average equilibrium price for the water and sewage services under the agreement, and thus the initial equilibrium tariff, allowing the final drafts of the agreement and its annexes to be consolidated for signature.

2. Market Information submitted by SABESP on June 5, 2024

On June 5, SABESP forwarded the SABESP Official Letter 005/2024 to the Government of São Paulo, requesting the redistribution of volumes in the market data, previously reported to the IFC by the Strategy Superintendence (PI) on March 14, 2024, aimed at correcting the proportion of mixed connections, allocating the distribution of this volume according to the existing residential and non-residential units. For this, the market data (volumes measured and billed) was resubmitted with the correct allocation of the volume originating from mixed connections, reviewed by the Strategy Superintendence (PI), according to the attached spreadsheet, for assessment and possible adjustments.

Following, the IFC and Siglasul, a hired consultancy firm, analyzed the data resubmitted by the Company and confirmed that, although the total market volume had not changed and continued to adhere to the historical information disclosed by the Company (particularly in the 2023 annual financial statements), the volume composition between categories was adjusted, with the measured volume of the residential water category increasing from 1,601 million m³ (86.23%) to 1,622 million m³ (87.38%), and the non-residential category from 255 million m³ (13.77%) to 234 million m³ (12.62%), corresponding to an increase of 1.32% in the measured water volume for the residential category, and a reduction of 8.29% for the non-residential category. When analyzing the behavior of this variable for sewage volume, the residential category changed from 1,415 million m³ (84.84%) to 1,434 million m³ (85.93%) and the non-residential category from 253 million m³

(15.16%) to 234 million m³ (14.07%%), corresponding to an increase of 1.29% in measured sewage volume for the residential category, and a reduction of 7.23% in the non-residential category, as presented in the table below.

<u>2023</u>	<i>PI</i>	<i>Share by Catego ry</i>	<i>Adjusted PI (Mixed Category)</i>	<i>Share by Category</i>	<i>Data Variation (PI x adjusted PI)</i>
Volume of Water Measured	1,857,234,414		1,857,234,414		0.00%
Residential	1,601,567,592	86.23%	1,622,770,915	87.38%	1.32%
Non-Residencial	255,666,822	13.77%	234,463,499	12.62%	-8.29%
Volume of Sewage Measured	1,668,861,252		1,668,861,252		0.00%
Residential	1,415,841,785	84.84%	1,434,122,695	85.93%	1.29%
Non-Residencial	253,019,467	15.16%	234,738,557	14.07%	-7.23%
Permissionaire	53,992,731		53,992,731		0.00%
Total Volume Measured	3,580,088,397		3,580,088,397		0.00%
Total Billed Volume	4,206,148,002		4,206,148,002		0.00%

In addition, upon receiving the aforementioned information, the IFC and Siglasul, the hired consultancy firm, **verified the entire regulatory model and confirmed, once again, that the calculation of the TRepI and the initial equilibrium tariff presented was correct.** However, with the aforementioned input information coming from the SABESP database, with the reallocation of mixed units between the residential and non-residential categories, the updated TRepI was -4.22% instead of -6.40%. In other words, by reallocating mixed units that were previously considered to be non-residential into residential and non-residential units, a lower Base Tariff Revenue was obtained, of approximately 2%. This is because the average revenue for residential units is lower than in non-residential units. The table below shows a comparison between the values filled in Annex VIII and the values resulting from the information provided by SABESP on June 5, 2024.

Calculation Components	Values published in ANNEX VIII	New Values from reviewed data
1. K Factor Revenue	R\$ 234.16 million	R\$ 234.16 million
2. Additional Revenue	R\$ 66.47 million	R\$ 66.47 million
3. Supplemental Revenue	R\$ 84.49 million	R\$ 84.49 million
4. REQUIRED REVENUE PRO	R\$ 22,806.23 million	R\$ 22,806.50 million

4.1- Unrecoverable Revenue	R\$ 369.95 million	R\$ 369.95 million
4.2- Operational Expenses	R\$ 8,521.83 million	R\$ 8,521.50 million
4.3- PPP and Asset Lease	R\$ 792.17 million	R\$ 792.17 million

4.4- Municipal Funds (FMSAI)	R\$ 606.47 million	R\$ 607.05 million
4.5- Use of Water Resources	R\$ 96.26 million	R\$ 96.26 million
4.6- RDI	R\$ 11.40 million	R\$ 11.40 million
4.7- Capital Remuneration (CR) + WCR	R\$ 9,518.04 million	R\$ 9,518.04 million
4.8- Capital Reinstatement	R\$ 2,890.12 million	R\$ 2,890.12 million
5. BASE TARIFF REVENUE 1 (TR1) (4-1-2-3)	R\$ 22,421.12 million	R\$ 22,421.38 million
6. Measured Volume in RP0 - water and sewage	3,571.67 million m3	3,571.67 million m3
7. BASE TARIFF REVENUE 0 (TR0) (4-1-2-3)	R\$ 24,176.67 million	R\$ 23,625.90 million
8. Average Current Tariff (7/6)	R\$ 6.77/m3	R\$ 6.61/m3
9. Average INITIAL TARIFF (9.1+9.2)	R\$ 6.34/m3	R\$ 6.34/m3
9.1- P0 average (5/6)	R\$ 6.28/m3	R\$ 6.28/m3
9.2- Financial Components	R\$ 0.058/m3	R\$ 0.058/m3
10- TRepI (9/8)	-6.40%	-4.22%

3. Conclusion and Forwarding

On June 5, SABESP forwarded the SABESP Official Letter 005/2024 to the Government of São Paulo, requesting the redistribution of volumes in the market data, previously reported to the IFC by the Strategy Superintendence (PI)

on March 14, 2024, aimed at correcting the proportion of mixed connections, allocating the distribution of this volume according to the existing residential and non-residential units.

Upon receiving the aforementioned information, the IFC and Siglasul, the hired consultancy firm, **verified the entire regulatory model and confirmed, once again, that the calculation of the TRepI and the initial equilibrium tariff presented was correct.** However, with the aforementioned input information coming from the SABESP database, with the reallocation of mixed units between residential and non-residential categories, the updated TRepI was -4.22% instead of -6.40%.

In view of this scenario, it is recommended that the Government of São Paulo (SEMIL & SPI) adjust the values presented in Annex VIII, as indicated above, given the request forwarded by SABESP and the analyses carried out by the IFC, highlighted in this Note. It should be noted that, in any case, the aforementioned annex establishes the information required for the initial equilibrium tariff formation by presenting all rationales required to calculate and assess the market regarding the robustness of the information and the transparency of the regulatory model.

Furthermore, it is important to highlight that the substitution of the numerical values contained in Annex VIII was exclusively due to the recalculation of the initial tariff and other related parameters based on data provided by

SABESP, on June 5, 2024, **maintaining the rules and contractual terms approved by the Deliberative Council of URAE 1 – Southeast unchanged.**

As presented in section 2, as of the first annual adjustment of the agreement, a robust process will be carried out to verify and certify market information, attesting to the measured and billed volumes and the number of connections and units served, for the purpose of verifying compliance with coverage targets and the equilibrium tariff formation.

Attached to this Technical Note is a marked version of the VIII with the necessary changes, if this is the decision adopted by the Government of the State of São Paulo. To conclude, it is worth highlighting that no changes occurred in the bases and contractual terms deliberated at the URAE meeting on May 20, the approved methodology was maintained and unchanged, and the adjustments required by the Company and addressed by the IFC and Siglasul, a hired consultancy firm, are exclusively related to the redistribution of the market relative to the mixed units, those that share connections among residential and non-residential units, in such a way that its correct distribution reflects the accurate average equilibrium price, which could only be calculated and consolidated in the contract after defining the number of Municipalities adhering to URAE1, which occurred on May 20, 2024, as already stated.

After addressing these pending matters, we take the opportunity to respectfully express esteem and consideration.

Official Letter 005/2024

São Paulo, June 05, 2024.

To Mr.

RAFAEL ANTONIO BENINI

Secretary of State of Partnerships in Investments Rua

Iaiá, 126, 12º andar, São Paulo-SP

To Ms.

NATÁLIA RESENDE ANDRADE ÁVILA

Secretary of State of Environment, Infrastructure, and Logistics

Avenida Professor Frederico Hermann Júnior, 345, prédio 1, 5º andar, São Paulo- SP

Re: URAE-1 Concession Agreement – Annex VIII | Market Data (volumes measured and billed) - 2023

Dear Secretaries,

In view of the completion of data contained in Annex VIII of the URAE-1 Concession Agreement, pursuant to the preliminary meeting with the IFC, we request the redistribution of the volumes reported by the Strategy Superintendence (PI) in the market data to correct the proportion of mixed connections, allocating the distribution of this volume according to the existing residential and non-residential units.

For this, we resubmitted the market data (volumes measured and billed) with the correct allocation of the volume originating from mixed connections, reviewed by the Strategy Superintendence (PI), according to the attached spreadsheet, for assessment and possible adjustments.

Sincerely,

BRUNO MAGALHÃES DABADIA

Regulation and New Businesses Officer



SIGNATURE VERIFICATION



Code for verification: 120C-151E-5C43-5431

This document was digitally signed by the following signatories on the indicated dates:

- ✓ BRUNO MAGALHÃES DABADIA (CPF 010.XXX.XXX-95) on 06/05/2024 10:17:19 p.m. (GMT-03:00)
Role: Party
Issued by: Sub-Certification Authority for 1Doc (1Doc Signature)

To check the validity of the signatures, access the Verification Central through the link:

<https://assinaturasabesp.1doc.com.br/verificacao/120C-151E-5C43-5431>