

ANNEX VII

U FACTOR, Q FACTOR, AND QUALITY INDICATORS

Clause 1. Preamble and purpose

- 1.1.** This Annex VII – U FACTOR, Q FACTOR AND QUALITY INDICATORS ("ANNEX") establishes (i) the regulatory mechanisms applicable in cases of non-compliance with the UNIVERSALIZATION GOALS and (ii) the incentive mechanisms for the provision of quality SERVICES that must be followed by SABESP throughout the term of the CONTRACT.
- 1.2.** The ANNEX will be structured into the following categories:
- (i)** Definitions;
 - (ii)** Regulatory mechanisms in case of non-compliance with UNIVERSALIZATION GOALS;
 - (iii)** Methodology for calculating the UNIVERSALIZATION FACTOR (U FACTOR); and
 - (iv)** Methodology for calculating the QUALITY INCENTIVE FACTOR (Q FACTOR).
- 1.3.** This ANNEX will be binding on the PARTIES and ARSESP.
- 1.4.** 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 established in this ANNEX.

Clause 2. Definitions

- 2.1.** For the purposes of this ANNEX, the following definitions apply:
- (i)** UNIVERSALIZATION FACTOR (U FACTOR): index applied yearly in INCREASE or REVISION processes that may reduce the Tariff Adjustment Index ("IRT") provided for in Annex V – REGULATORY MODEL in the event of non-compliance with the UNIVERSALIZATION GOALS;
 - (ii)** QUALITY INCENTIVE FACTOR (Q FACTOR): index applied annually in the ADJUSTMENT or TARIFF REVISION processes with the potential to reduce or increase the IRT, under the terms established in ANNEX V, with the objective of encouraging improvements in the provision of SERVICES through the granting of tariff increases (i.e. Q Factor > 0) when performance is superior to that stipulated in this CONTRACT or tariff reductions to SABESP (i.e. Q Factor < 0) when overall performance falls short of that stipulated. Also called GENERAL QUALITY INDEX (GQI);
 - (iii)** Water Supply Service Coverage Indicator (ICA): percentage of households located in the MUNICIPALITY covered by the water supply service in relation to the total number of residential homes;
 - (iv)** Indicator of Sewage Collection or Disposal Service Coverage in the MUNICIPALITY (ICE): percentage of residential households covered by a sewage network or septic tank for the collection of excreta or sanitary sewage in relation to the total number of residential households;

- (v)** Indicator of Sewage Treatment Service Coverage (IEC): percentage of residential households covered by a sewage network with sewage treatment or by a septic tank for the on-site collection and disposal of excreta or sanitary sewage, relative to the total number of residential households;
- (vi)** QUALITY INDICATORS: indicators of product quality, service quality, commercial quality, and pavement restoration quality provided for in Clause 5 of this ANNEX;
- (vii)** COVERAGE GOALS: set of water and sewage coverage goals, outlined in Annex II – TECHNICAL ANNEX OF EACH MUNICIPALITY;
- (viii)** GOALS FOR INCREASING UNITS: a set of targets related to the increase in new residential household connections, as provided in Annex II – TECHNICAL ANNEX FOR EACH MUNICIPALITY;
- (ix)** UNIVERSALIZATION GOALS: include both COVERAGE GOALS and GOALS FOR INCREASING UNITS;
- (x)** NEW RESIDENTIAL ECONOMIES: includes (a) domestic units whose physical incorporation into the water supply, collection or sewage treatment systems occurred after December 31, 2023, with those that were previously removed and subsequently reconnected not being considered new units; or (b) domestic units that, before December 31, 2023, had sewage collection service and were connected to the treatment system after that date. Rule (b) applies only to savings goals associated with sewage treatment service;
- (xi)** ADAPTATION PLAN: plan to be prepared and implemented by SABESP after verifying non-compliance with any of the UNIVERSALIZATION GOALS, informing how the provider intends to meet the unmet goal. The minimum content of the ADAPTATION PLAN and the criteria for its acceptance will be subject to specific regulations by ARSESP.

Clause 3. Regulatory Mechanisms in case of Non-Compliance with UNIVERSALIZATION GOALS

3.1. Compliance with the SERVICE UNIVERSALIZATION GOALS, as defined in Annex II – TECHNICAL ANNEX OF EACH MUNICIPALITY, will be assessed by observing the following indicators and scaling:

- (i)** for the years 2025 and 2026, the GOALS FOR INCREASING UNITS will be observed by territorial division of URAE-1 (formal and informal urban together with rural);
- (ii)** for the year 2027, the COVERAGE GOALS of each MUNICIPALITY will be observed without territorial division, as defined in Annex II – TECHNICAL ANNEX OF EACH MUNICIPALITY. These COVERAGE GOALS will be assessed using the ICA and ICE indicators; and
- (iii)** from 2028 onwards, the COVERAGE GOALS of each MUNICIPALITY will be observed by territorial division (formal urban, informal and rural). These COVERAGE

goals will be assessed using the ICA and ICE indicators, in their urban, informal and rural variants, as defined in Annex II – TECHNICAL ANNEX OF EACH MUNICIPALITY.

3.1.1. From 2027 onwards, compliance with the COVERAGE GOALS of the collected sewage treatment service will be assessed by the IEC indicator, without cut-off, as defined in Annex II – TECHNICAL ANNEX OF EACH MUNICIPALITY.

3.2. In the event of total or partial non-compliance with the CONTRACT with regard to the UNIVERSALIZATION GOALS, SABESP will be cumulatively subject, to:

- (i) application of UNIVERSALIZATION FACTOR (U FACTOR);
- (ii) obligation to prepare and execute an ADAPTATION PLAN, under terms to be defined by ARSESP after verifying non-compliance with any of the UNIVERSALIZATION GOALS on which the U Factor applies;
- (iii) declaration of termination of the CONTRACT, under its terms and under the terms of Federal Law 11,445/2007 (Art. 11-B § 7), in the event of repeated non-compliance with the annual COVERAGE GOALS, as described in Clause 3.5, preceded by due legal process, under APPLICABLE LEGISLATION and REGULATION.

3.2.1. Without prejudice to the indicator assessment procedure provided for in Clause 43 of the CONTRACT, including the provisions of paragraphs 5 to 9, SABESP shall not be held liable, under the terms above, for failure to comply with the UNIVERSALIZATION GOALS of the service when the failure is provenly due to the omission or delay of URAE-1, the MUNICIPALITIES or the STATE in fulfilling their obligations, under the terms of Chapter 2 of the CONTRACT and other risks assumed by URAE-1, under the terms of Clause 37 of the CONTRACT. Defaults incurred by URAE-1, Municipalities and/or STATE may be considered as excluding liability to SABESP with regard to compliance with the UNIVERSALIZATION GOALS obligations, and investments not made may not be recognized in the RAB, nor will any financial losses resulting from the lack of increase in the RAB due to the non-realization of investments be considered.

3.3. The ADAPTATION PLAN defined in subclause 3.2 (ii) will be prepared by SABESP and submitted to ARSESP for analysis and validation, and must:

- (i) be presented to ARSESP within 60 days after notification by ARSESP of the non-compliance with the COVERAGE GOAL;
- (ii) be analyzed by ARSESP within 30 days and, if approved, submitted to SABESP for implementation measures. If not approved, it will be returned to SABESP for the indicated adjustments;
- (iii) be reviewed and adjusted by SABESP, being submitted to ARSESP for the appropriate analysis within 15 days;
- (iv) be reviewed and approved by ARSESP within 15 days after resubmission by SABESP; and

(v) have its execution initiated by SABESP in the same year of its approval.

3.3.1. The approval of the ADAPTATION PLAN by ARSESP does not exempt, in any way, SABESP from the obligation to meet all the goals related in this Annex or in ANNEX II – TECHNICAL ANNEX OF EACH MUNICIPALITY.

3.4. The assumptions and methodology for determining the UNIVERSALIZATION FACTOR (U FACTOR) are outlined in Clause 4 of this ANNEX.

3.5. The characterization of breach of contract for the purposes of possible termination of the CONTRACT, under Federal Law 11,445/2007 (Art. 11-B § 7), is subject to the hypotheses expressly described in the CONTRACT, in Annex III - INFRACTIONS AND PENALTIES and/or the occurrence of one of the following conditions:

(i) failure to comply with at least one of the URAE-1 COVERAGE GOALS, assessed using the ICA, ICE and IEC indicators, in two consecutive years or in three non-consecutive years within a five-year period starting in 2025; and/or

(ii) failure to comply with at least one of the COVERAGE GOALS of the MUNICIPALITIES assessed through the ICA, ICE, and IEC indicators without cuts, which represents at least one third (1/3) of the MUNICIPALITIES of URAE-1, in two consecutive years or in three non-consecutive years starting in 2027, provided that there is no increase in any of the three URAE-1 coverage indices; and/or.

(iii) measurement of the service availability indicator WOCI – User Complaints Index Related to Water Outages and Low Pressure reaching a level equal to or greater than 95, regardless of the applicable target menu used to calculate the Q Factor, for 4 consecutive semesters or 7 non-consecutive semesters within a five-year period.

3.6. The ICA, ICE, and IEC indicators are calculated according to the formulas presented in Annex II – TECHNICAL ANNEX.

3.7. Until 2030, for the specific purpose of evaluating the scenarios provided for in this Annex that may lead to contract termination, the COVERAGE GOALS for URAE-1 shall be those indicated in the table below or any others that may replace them through a contractual amendment.

Year	ICA	ICE	IEC
2025	95%	88%	78%
2026	97%	90%	85%
2027	99%	93%	87%
2028	99%	96%	89%
2029 - 2060	99%	99%	99%

3.8. Until 2030, for the specific purpose of evaluating the scenarios provided for in this Annex that may lead to contract termination, a “tolerance margin” of 1.0 percentage point for URAE-1 and 2.0 percentage points for each MUNICIPALITY shall be applied to verify compliance with the established goals.

3.8.1. In other words, until 2030, if the comparison between the measured indicator and its respective goal results in a difference less than or equal to 1.0 percentage point for URAE-1 and 2.0 percentage points for the MUNICIPALITY, SABESP shall be deemed to have met the specific goal and, therefore, shall not be subject to potential contract termination under the scenarios defined in this ANNEX related to that specific goal.

Clause 4. Methodology for calculating the UNIVERSALIZATION FACTOR (U FACTOR)

4.1. For the calculation of the UNIVERSALIZATION FACTOR (U FACTOR), the Universalization Performance Index (UPI) is first constructed for each geographic level defined in the scaling described in the subclause 3.1.

4.1.1. In 2025 and 2026, the UPI for URAE-1 will follow the formulation below:

$$UPI (\%) = \sum_{i=1}^I \left(\frac{Unit_Increase_{it}}{Threshold_{it}} \right) \times weight_i$$

$$\{ \text{If } Unit_Increase_{it} \geq Threshold_{it}, \text{ then } \frac{Unit_Increase_{it}}{Threshold_{it}} = 1$$

Where:

IDU (%): Universalization Performance Index, calculated as the weighted sum of performance across each segment with respect to the increase in new domestic units for URAE-1 (*Unit_Increase_{it}*) in relation to its corresponding GOAL FOR INCREASING UNITS defined in Annex II – TECHNICAL ANNEX FOR EACH MUNICIPALITY;

Unit_Increase_{it}: sum of NEW DOMESTIC UNITS incorporated for each segment “i” and service type “t” after December 31, 2023. Index “i” refers to the urban, rural, or informal segments, while index “t” refers to water supply, sewage connection, or sewage treatment services.

Threshold_{it}: the threshold expressed as the product of the “tolerance margin” (%) and the GOAL FOR INCREASING UNITS (cumulative quantities) for each URAE-1 segment to be achieved in year t (2025, 2026). That is, if the actual *Unit_Increase_{it}* exceeds the applicable *Threshold_{it}*, SABESP is considered to have met the specific GOAL FOR INCREASING UNITS and is therefore not subject to the application of the U FACTOR related to that specific GOAL FOR INCREASING UNITS. However, if it is smaller, it is considered not to have been met.

GOAL FOR INCREASING UNITS, resulting in the application of a U FACTOR greater than zero due to this specific non-compliance. In the latter case, the $Threshold_{it}$ is used in the UPI (%) calculation instead of $Goal_{it}$. The formula below indicates the calculation of the Threshold:

$$Threshold_{it} = Goal_{it} \times (1 - DeadBand)$$

Metait: GOAL FOR INCREASING UNITS to be achieved in year t (2025 or 2026), as specified in Annex II – TECHNICAL ANNEX OF EACH MUNICIPALITY;

DeadBand: value of five percentage points;

weight_i: weight attributed to each component, according to the table below, with subscripts URB (urban), INF (informal), and RUR (rural).

Year	Applicat ion	ICA			ICE			IEC
		ICAUR	ICAIN	ICARU	ICEUR	ICEIN	ICERU	
		B	F	R	B	F	R	
2025 – 2026	UPI (%) URAE-1	8%	12%		12%	18%		50%

- 4.1.2.** From 2027 onwards, the UPI for the MUNICIPALITY will follow the following formulation:

$$UPI (\%) = \sum_{i=1}^I \left(\frac{Index_{it}}{Goal_{it}} \right) \times weight_i$$

$$\{ \text{If } Index_{it} \geq Goal_{it} - DeadBand, \text{ then } \frac{Index_{it}}{Goal_{it}} = 1$$

Where:

UPI (%): Universalization Performance Index, calculated as the weighted sum of performance across $Index_{it}$ in relation to its respective COVERAGE GOAL defined in Annex II – TECHNICAL ANNEX OF EACH MUNICIPALITY;

$Index_{it}$: index “i” calculated in year “t”, where for “t” equal to 2027, “i” refers to the indicators ICA, ICE, and IEC. From 2028 onward, i refers to the indicators ICA, ICAURB, ICAINF, ICARUR, ICE, ICEURB, ICEINF, ICERUR, or IEC—that is, each geographic breakdown defined in the scaling described in subclause 3.1 is taken into account;

Goal_{it}: COVERAGE GOAL for the $Index_{it}$ to be achieved in year t (2027 onwards) as outlined in Annex II – TECHNICAL ANNEX OF EACH MUNICIPALITY;

DeadBand: a “tolerance margin” of 1 percentage point (p.p.), valid only for the year 2027, to attest to compliance with the COVERAGE GOAL. That is, if the comparison between the calculated Index_{it} and the applicable Goal_{it} results in a difference less than or equal to 1 p.p., SABESP is considered to have met that specific COVERAGE GOAL and, therefore, is not subject to the application of the U FACTOR associated with that specific COVERAGE GOAL. However, if the difference is greater than 1 p.p., the established COVERAGE GOAL will be considered not met and a U FACTOR greater than zero must be applied due to this specific non-compliance. The calculation of the formula for the years 2028 and 2029 does not consider this variable;

weight_i: weight attributed to each component, according to the table below, with subscripts URB (urban), INF (informal), and RUR (rural).

Year	Applicability	ICA			ICE			IEC
		ICAURB	ICAINF	ICARUR	ICEURB	ICEINF	ICERUR	
2027	UPI (%) Municipality	20%			30%			50%
As of 2028	UPI (%) Municipality	5%	7.5%	7.5%	7.5%	11.25%	11.25%	50%

4.1.3. In the event that one of the territorial segments—rural or informal—does not exist in the specific MUNICIPALITY, the weights used to calculate the UPI (%) shall be:

Year	Applicability	ICA			ICE			IEC
		ICAURB	ICAINF	ICARUR	ICEURB	ICEINF	ICERUR	
As of 2028	UPI (%) Municipality No Informal or No Rural	8%	12%		12%	18%		50%

4.1.4. In the event that both territorial segments—rural and informal—are not present in the specific MUNICIPALITY, the weights used to calculate the UPI (%) shall be:

Year	Applicability	ICA			ICE			IEC
		ICAURB	ICAINF	ICARUR	ICEURB	ICEINF	ICERUR	
As of 2028	UPI (%) Municipality with No Informal and No Rural	20%			30%			50%

4.2. In 2025 and 2026, a global UNIVERSALIZATION FACTOR (FACTOR U)

for URAE-1 shall be calculated using the formula below:

$$U \text{ Factor URAE (\%)} = 1 - UPI \text{ URAE (\%)} \times \text{recurrence}$$

Where:

U Factor URAE (%): UNIVERSALIZATION FACTOR (FACTOR U) calculated in an aggregated manner (without distinction by MUNICIPALITY) for the territorial segments (formal urban, informal urban, and rural combined) of URAE-1.

UPI URAE (%): URAE-1 Universalization Performance Index, calculated according to the procedures described in subclause 4.1; and

recurrence: a parameter aimed at encouraging the prompt resolution of coverage issue(s) identified in URAE-1. It assumes (i) value 1 if there is no non-compliance with the Threshold associated with the GOALS FOR INCREASING UNITS in any of the territorial sections of URAE-1 (formal urban, informal urban, and rural) or the observed non-compliance occurred only once between 2025 and 2026 in that specific section(s); or (ii) 0.95 if non-compliance in the same section occurs in 2025 and 2026.

4.3. From 2027 onwards, a UNIVERSALIZATION FACTOR (U FACTOR) will be calculated for each MUNICIPALITY expressed by the formula below:

$$U \text{ Factor Municipality (\%)} = 1 - UPI \text{ Municipality (\%)} \times \text{recurrence} \times \text{size}$$

Where:

U Factor Municipality (%): UNIVERSALIZATION FACTOR (U FACTOR) calculated for each MUNICIPALITY, being observed in 2027 for the MUNICIPALITY in an aggregated manner and, from 2028 onward, in its territorial segments (formal urban, consolidated informal urban, and rural);

UPI Municipality (%): Universalization Performance Index of the MUNICIPALITY, calculated according to the procedures described in subclause 4.1;

size: parameter calculated annually to encourage investment in MUNICIPALITIES with smaller populations. It takes the value of (i) 0.5 if the MUNICIPALITY has up to 200,000 inhabitants and the MUNICIPALITY's UPI is different from 1; or (ii) 1 in two situations: if the MUNICIPALITY has up to 200,000 inhabitants and the MUNICIPALITY's UPI equals 1, or if the MUNICIPALITY has more than 200,000 inhabitants; and

recurrence: parameter aimed at encouraging the prompt resolution of the coverage issue(s) identified in the MUNICIPALITY. It assumes the value (i) 1 if there is no non-compliance with the COVERAGE TARGETS in the MUNICIPALITY or if the observed non-compliance occurred only once in the last two years; or (ii) 0.90 if the non-compliance occurs in two or more consecutive years.

4.3.1. Only the COVERAGE GOALS for the years 2027 and 2028 outlined Annex II – TECHNICAL ANNEX by MUNICIPALITY, may be revised in cases where the coverage index measured in 2026, considering the results of surveys in the rural urban segments and in the urban and informal segments for the respective MUNICIPALITY, is more than three (3) percentage points below the reference coverage indicators established for the year 2026 in Annex II – TECHNICAL ANNEX.

4.3.1.1. For the period after 2029, including that year, the COVERAGE GOALS must be maintained in accordance with the provisions set forth in Annex II – TECHNICAL ANNEX.

4.4. To obtain the UNIVERSALIZATION FACTOR (U FACTOR) to be applied in the calculation of the IRT defined in Annex V – REGULATORY MODEL, the calculation will be performed reflecting the scaling described in subclause 3.1 and as described below:

(i) For the assessment of the GOALS FOR INCREASING UNITS for 2025 and 2026, the UNIVERSALIZATION FACTOR (U FACTOR) to be applied in the calculation of the TARIFF ADJUSTMENT INDEX (IRT) shall be obtained based on the GOALS FOR INCREASING UNITS of the territorial segments (urban formal, urban informal, and rural) of URAE-1, using the following formulation:

$$U \text{ Factor (\%)} = \text{URAE } U \text{ Factor (\%)}$$

Where:

U Factor (%): UNIVERSALIZATION FACTOR (U-FACTOR) related to the Threshold of the GOALS FOR INCREASING UNITS for 2025 and 2026, to be applied in the calculation of the TARIFF ADJUSTMENT INDEX (IRT) for the years 2026 and 2027.

(ii) For the evaluation of the COVERAGE TARGETS from 2027 onwards, the UNIVERSALIZATION FACTOR (FACTOR U) to be applied in the calculation of the TARIFF ADJUSTMENT INDEX (IRT) shall be obtained considering the COVERAGE GOALS of each index (ICA, ICE, or IEC) in the year 2027 or of each index (ICA, ICAURB, ICAINF, ICARUR, ICE, ICEURB, ICEINF, ICERUR, or IEC) from 2028 onwards for each MUNICIPALITY, based on the following formula:

$$U \text{ Factor (\%)} = \frac{\sum \text{Municipality } U \text{ Factor (R\$)}}{\sum \text{Dir. Op. Revenue Mun. (R\$)}}$$

Where:

U Factor (%): UNIVERSALIZATION FACTOR (U FACTOR) relating to COVERAGE GOALS from 2027 onwards, to be applied in the calculation of the TARIFF ADJUSTMENT INDEX (IRT) from 2028 onwards;

U Factor Municipality (R\$): calculated as the product of U Factor Municipality (%) estimated for a given year using the Dir. Op. Revenue Municipality (R\$) in the same year;

Dir. Op. Revenue Mun. (R\$): Net Direct Operating Revenue obtained by SABESP in the MUNICIPALITY in the year of calculation of the respective U Factor Municipality (R\$).

4.5. The UNIVERSALIZATION FACTOR (U FACTOR) to be applied in the calculation of each TRI is limited to between 0% and 10% not to jeopardize SABESP's operation in a

given year, without prejudice to other applicable measures provided for in Annex III – INFRACTIONS AND PENALTIES.

Clause 5. Methodology for calculating the QUALITY INCENTIVE FACTOR (Q FACTOR)

5.1. The fulfillment of contractual obligations regarding product quality, service quality, commercial quality, and pavement restoration quality will be assessed through the monitoring of the QUALITY INDICATORS that comprise the QUALITY INCENTIVE FACTOR (Q FACTOR). Regarding product quality, in addition to the TWCI and DWCI1 indicators, described below, full compliance is required with all provisions of Ordinance GM 888/MS, of 05/04/2021, which supplemented Consolidation Ordinance 5 of the Ministry of Health, or any regulation that may replace it.

5.2. The QUALITY INDICATORS applied in the 1st TARIFF CYCLE are expressed using the formulas below.

5.2.1. Product QUALITY INDICATORS:

(i) TWCI Indicator – Water Quality in the Treatment Process

$$TWCI(\%) = \frac{\begin{array}{c} \text{results in accordance with} \\ \Sigma \text{ legislation (color, turbidity, free residual} \\ \text{chlorine, fluoride and total coliforms)} \end{array}}{\Sigma \text{ samples taken}}$$

Where:

TWCI (%): Treated Water Compliance Index, in the water treatment process, which aims to verify compliance with the requirements contained in the legislation concerning drinking water quality standards

Σ Results in compliance with the legislation: number of samples for total coliforms, turbidity, chlorine, color, and fluoride, with results in compliance in the month, according to Consolidation Ordinance 5 of the Ministry of Health or any succeeding regulation; and

Σ Samples taken: number of samples for total coliforms, turbidity, chlorine, color, and fluoride taken in the month, as regulated by ARSESP in the case of complementary regulation to Consolidation Ordinance 5 of the Ministry of Health, or any succeeding regulation.

(ii) DWCI1 Indicator – Water Quality in the Distribution Network and Consumption Points

$$DWCI1(\%) = \frac{\begin{array}{c} \text{results in accordance with} \\ \Sigma \text{ legislation (color, turbidity, free} \\ \text{residual chlorine, total coliforms, and} \\ \text{Escherichia coli)} \end{array}}{\Sigma \text{ samples taken}}$$

DWCI1 (%): Distributed Water Compliance Index, in the distribution system and consumption points, which aims to verify compliance with the requirements contained in the legislation concerning drinking water quality standards;

Σ Results in compliance with the legislation: number of samples of Escherichia Coli, turbidity, chlorine, total coliforms and color with results in compliance in the month, according to Consolidation Ordinance 5 of the Ministry of Health or any succeeding regulation; and

Σ Samples taken: number of samples of Escherichia Coli, turbidity, chlorine and color, taken in the month, as regulated by ARSESP in the case of complementary regulation to Consolidation Ordinance 5 of the Ministry of Health, or any succeeding regulation.

(iii) RISTE Indicator – Regulatory Indicator of Sewage Treatment Efficiency

$$\text{RISTE (\%)} = \frac{\Sigma \text{ biochemical oxygen demand analyses in compliance with the STS}}{\Sigma \text{ biochemical oxygen demand analyses performed or planned at the STS}}$$

Where:

RISTE (%): Regulatory Indicator for Sewage Treatment, which aims to verify the efficiency in reducing Biochemical Oxygen Demand (BOD), a parameter used to measure organic pollution. This indicator does not apply to sewage discharged into soil, ocean disposal systems, reuse processes, or Sewage Treatment Stations (STSs) undergoing expansion projects or awaiting decommissioning;

Σ biochemical oxygen demand analyses in compliance with the STS: number of analyses performed that met or exceeded the minimum removal level determined by CONAMA Resolution 430/2011 or State Decree 8,648/1976, or any succeeding regulation, with the more restrictive regulation prevailing; and

Σ biochemical oxygen demand analyses performed or planned at the STS: number of biochemical oxygen demand analyses performed or planned, under current regulations, with the highest quantitative value prevailing.

5.2.1.1. During the 1st TARIFF CYCLE, when calculating the RISTE indicator, the analyses to assess sewage treatment efficiency will not apply to individual systems implemented by SABESP.

5.2.2. Service and Commercial QUALITY INDICATORS:

(i) VLI Indicator – Visible Leak Index

$$\text{VLI (leak/km)} = \frac{\Sigma \text{ visible leaks along the water distribution network}}{\text{water distribution network}}$$

Where:

VLI (leak/km): Visible Leaks Index, aimed at measuring how many visible water leaks there are per kilometer of network extension and encouraging efficiency in combating real losses and preventive maintenance of the water supply system;

Σ visible leaks: water leaks detectable by the naked eye, excluding major leaks, as regulated by ARSESP; and

length of the water distribution network: length in km of the distribution network (mains), excluding mains and submains from the calculation.

(ii) WOCI Indicator – User Complaints Index Related to Water Outages and Low Pressure

$$\text{WOCI (Complaints/1,000 connections)} = \frac{\Sigma \text{ complaints regarding the discontinuity of the water supply service}}{\Sigma \text{ active water connections}}$$

Where:

WOCI (Complaints/1,000 connections): User Complaints Index Related to Water Outages and Low Pressure, as defined by ARSESP regulations, aimed at encouraging improvements in the quality of water supply services by measuring the number of complaints related to water supply discontinuities recorded in SABESP's user service channels;

Σ complaints regarding discontinuity: any form of communication (complaint, information, inquiry, etc.) recorded by SABESP regarding the lack of water or low pressure in the supply network, excluding those in which, according to ARSESP regulations, the water outage or low pressure occurred due to the exclusive fault of the complaining user, such as internal problems within the user's premises and service cut-off due to default;

active water connections: water connections in the public network that were fully operational on the last day of the reporting period.

5.2.3. QUALITY INDICATORS for Pavement Restoration:

(i) PRPI Indicator – Pavement Restoration Period Indicator

$$\text{PRPI (business days)} = 95\text{th percentile of the time taken to complete all pavement restorations during the reference period (annual)}$$

Where:

PRPI (business days): Pavement Restoration Period Indicator, aimed at measuring the typical timeframe for performing pavement restorations over the course of the reference year to encourage the reduction of repair and construction durations in the network; and

pavement replacement: application of materials complying with the standards of the existing sidewalk and/or roadway before carrying out any intervention that alters the original pavement conditions, as regulated by ARSESP.

(ii) PRECI Indicator – Pavement Restoration Execution Compliance Indicator

$$\text{PRECI (\%)} = \frac{\text{number of approved restorations}}{\text{total number of samples}}$$

Where:

PRECI (%): Pavement Restoration Execution Compliance Indicator, aimed at measuring and encouraging the quality of pavement restorations resulting from the SERVICES, by assessing compliance with technical and municipal standards to address urban issues caused by poor asphalt conditions;

Number of approved restorations: number of on-site inspections that resulted in a determination of pavement restorations being compliant with standards set by the Brazilian Association of Technical Standards (ABNT) and the inspected MUNICIPALITIES, to be defined by ARSESP; and

Total number of samples: number of on-site inspections conducted to assess the pavement surface condition in terms of ride comfort and USER safety, carried out based on a sample determined according to NBR 5426 and the methodology to be established by ARSESP.

5.2.4. The QUALITY INDICATORS will be calculated and published semiannually in the Performance Indicators, Works Planning, and Investment Monitoring Panel provided in Annex II – TECHNICAL ANNEX, except for the DWCI and RISTE indicators, which will be calculated and published monthly on the Panel after ARSESP issues its regulations.

5.2.5. The calculation of the QUALITY INDICATORS will be carried out by the INDEPENDENT VERIFIER, as established in the Work Plan provided in Annex VI – GUIDELINES FOR THE PERFORMANCE OF THE VALUATION COMPANY AND THE INDEPENDENT VERIFIER.

5.2.6. The PRECI indicator will be calculated according to the guidelines to be established by ARSESP in future regulation, which will address (i) the interface between ARSESP's supervisory activities and those of the competent municipal authorities and (ii) the terms and conditions under which the inspection results from the competent municipal authorities will be reflected in the PRECI. This regulation must be subject to public participation and published prior to the first TARIFF ADJUSTMENT to be approved in December 2025.

- (i) The criteria for calculating the PRECI must take into account the adequacy conditions outlined in the relevant Brazilian Standards (NBRs) and in the MUNICIPALITY's specific legislation on the subject.
- (ii) From the EFFECTIVE DATE through December 31, 2025, the PRECI indicator will be equal to 1 for the purposes of calculating the Q FACTOR.

5.2.7. For the purposes of calculating the QUALITY INCENTIVE FACTOR (Q FACTOR) during the 1st TARIFF CYCLE, the assessment of the calculated values of the QUALITY INDICATORS against their respective contractual goals will be carried out annually and in aggregate for the entire URAE-1, as defined by ARSESP Resolution 1,123/2021.

5.3. The QUALITY INDICATORS and their formulas to be applied starting from the 2nd TARIFF CYCLE until the end of the CONTRACT term will be determined by future ARSESP regulation, always following a prior procedure that ensures broad public participation and transparency.

5.4. To assess the overall quality of SABESP's service provision, the QUALITY INDICATORS will be combined to produce a single GENERAL QUALITY INDEX (GQI or Q FACTOR) applicable to the entire URAE-1 and calculated using the following general formula, which relates the individual indicators to their respective contractual targets:

$$\text{IGQ or Q FACTOR (\%)} = \sum_i^n \left[\frac{1}{n} \times \left(\frac{ITWCI + IDWCI1}{2} + Ii \right) \right]$$

Where:

Q Factor (%): QUALITY INCENTIVE FACTOR (Q FACTOR)

corresponding to a single GENERAL QUALITY INDEX (IGQ) designed to encourage improvements in service delivery through the granting of tariff bonuses (i.e., Q FACTOR > 0) or tariff deductions to SABESP (i.e., Q FACTOR < 0); and

$\frac{1}{n} \times \left(\frac{ITWCI + IDWCI1}{2} + I \right)$: tariff impact percentage (positive or negative)

associated with the performance assessment of each QUALITY INDICATOR "i" vis-à-vis its respective contractual target in the year prior to the tariff ADJUSTMENT or PERIODIC REVISION process. For the DWCI1 indicator, the simple average of the two evaluation metrics considered for the DWCI1 and TWCI indicators will be considered.

5.5 The Target Menu Regulation methodology shall be adopted for determining the tariff impacts $\frac{1}{n} \times \left(\frac{ITWCI + IDWCI1}{2} + I \right)$ except for QUALITY INDICATORS whose goals reflect legal, health, or environmental obligations.

5.5.1 At each PERIODIC TARIFF REVISION, ARSESP shall publish the target menu to be in effect for the subsequent TARIFF CYCLE applicable to each QUALITY INDICATOR, as well as the rules and deadlines for SABESP to select its targets. In turn, it will be up to SABESP to choose the target for each QUALITY INDICATOR and justify its choice.

5.5.2 The menu of goals offered by ARSESP will have the following characteristics:

- (i) The best results in terms of tariff benefit should be obtained when the target chosen by SABESP for a given

QUALITY INDICATOR is equal to the performance recorded for it;

(ii) The central goal of each QUALITY INDICATOR should reflect the desired regulatory level; and

(iii) If the central goal is met, the gain obtained by SABESP will be zero.

5.5.3 Goals that reflect legal, health, or environmental obligations will be determined by ARSESP and cannot be chosen by SABESP.

5.5.4 To calculate the tariff impact associated with the performance of each QUALITY INDICATOR, ARSESP will adopt a model that considers linear interpolation (or an equation that incorporates it) between the upper and lower limits of the result.

5.6 The values of the QUALITY INDICATORS are limited to their theoretical possible values or those defined by the target menus, when applicable.

5.7 The QUALITY INCENTIVE FACTOR (Q FACTOR) to be calculated for the INITIAL TARIFF defined for the purposes of the privatization process authorized by Law 17,853/2023 will follow the formulation below:

$$Q \text{ FACTOR } (\%) = \frac{1}{5} \times \left(\frac{ITWCI + IDWCI}{2} \times I_{DWCI} + \frac{1}{5} IRTES + \frac{1}{5} IIVV + \frac{1}{5} IIRFA + \frac{1}{5} IIPRP \right)$$

Where:

$\frac{1}{5} \times \frac{ITWCI + IDWCI}{2}$: tariff impact percentage (zero or negative) associated with the performance of TWCI and DWCI1 in 2024 vis-à-vis their target (95%). In turn, I_{DWCI} is calculated as $\frac{DWCI(\%) - 1}{95\%} \times 0.1$, where

DWCI (%) is the calculated value of the indicator and 95% is its target;

$\frac{1}{5} \times I_{RISTE}$: tariff impact percentage (zero or negative) associated with the RISTE's performance in 2024 vis-à-vis its target (95%). In turn, I_{RISTE} is calculated as $\frac{RISTE(\%) - 1}{95\%} \times 0.1$, where

RISTE (%) is the value determined by the indicator and 95% is its target;

$\frac{1}{5} \times I_{VLI}$: tariff impact percentage (positive or negative) associated with the VLI's accurate performance in 2024. In turn, I_{VLI} is the value of the cell (or the interpolation between cells described in subclause 5.5) of the target menu associated with the performance of the VLI in 2024 vis-à-vis the target chosen by SABESP;

$\frac{1}{5} \times I_{WOCI}$: tariff impact percentage (positive or negative) associated with the WOCI performance in 2024. In turn, I_{WOCI} is the value of the cell (or the interpolation between cells described in subclause 5.5) of the target menu associated with the performance of the WOCI in 2024 vis-à-vis the target chosen by SABESP; and

$\frac{1}{5} \times I_{PRPI}$: tariff impact percentage (positive or negative) associated with the PRPI's performance in 2024. In turn, I_{PRPI} is the value of the cell (or the interpolation between cells described in subclause 5.5) of the target menu associated with the performance of the PRPI in 2024 vis-à-vis the target chosen by SABESP.

5.7.1 The targets for the VLI, WOCI, and PRPI indicators for the period between the EFFECTIVE DATE and December 31, 2025 will be chosen from the menus published by ARSESP in ARSESP Resolution 1,395/2023.

5.7.2 Any errors or inaccuracies in the equipment, processes, and activities applied in the calculation of the WOCI and RISTE indicators cannot be used by SABESP as factors that would exempt it from meeting its goals.

5.8 The QUALITY INCENTIVE FACTOR (Q FACTOR) to be calculated for ADJUSTMENTS during the 1st TARIFF CYCLE will follow the formula below:

$$Q \text{ FACTOR } (\%) = \frac{\frac{1}{6} \times \frac{ITWCI + IDWCI1}{2} - \frac{1}{6} \times I_{IRTES} - \frac{1}{6} \times I_{IVV} - \frac{1}{6} \times I_{IRFA} + \frac{1}{6} \times I_{IPRP} + \frac{1}{6} \times I_{ICERP}}{6 \times (\quad^2 \quad) + 6 \times I_{IRTES} + 6 \times I_{IVV} + 6 \times I_{IRFA} + 6 \times I_{IPRP} + 6 \times I_{ICERP}}$$

Where:

$\frac{1}{6} \times (\frac{ITWCI + IDWCI1}{2})$: tariff impact percentage (zero or negative) associated with DWCI's performance in each year between 2025 and 2030 vis-à-vis its respective goal. In turn, $IDWCI$ is calculated as $[\frac{DWCI(\%)}{DWCI_{goal}} - 1] \times 0.1$, where DWCI (%) is the calculated value of the indicator and DWCI goal is its target;

$\frac{1}{6} \times I_{IRTES}$: tariff impact percentage (zero or negative) associated with RISTE's performance in each year between 2025 and 2030 vis-à-vis its respective target. In turn, I_{RISTE} is calculated as $[\frac{RISTE(\%)}{95\%} - 1] \times 0.1$, where RISTE (%) is the value determined by the indicator and 95% is its target;

;

$\frac{1}{6} \times I_{VLI}$: tariff impact percentage (positive or negative) associated with VLI's performance in each year between 2025 and 2030. In turn, I_{IVV} is the value of the cell (or the interpolation between cells described in subclause 5.5) of the target menu associated with the performance of the VLI in each year between 2025 and 2030 vis-à-vis the target chosen by SABESP;

$\frac{1}{6} \times I_{WOCI}$: tariff impact percentage (positive or negative) associated with WOCI's performance in each year between 2025 and 2030 vis-à-vis the target chosen by SABESP. In turn, I_{WOCI} is the value of the cell (or the interpolation between cells described in subclause 5.5) of the target menu associated with the performance of the WOCI in each year between 2025

and 2030 vis-à-vis the target chosen by SABESP;

$\frac{1}{6} \times I_{IRPI}$: tariff impact percentage (positive or negative) associated with the IRRP's performance in each year between 2025 and 2030 vis-à-vis the target chosen by SABESP. In turn, I_{WOCI} is the value of the cell (or the interpolation between cells described in subclause 5.5) of the target menu associated with the performance of the PRPI in each year between 2025 and 2030 vis-à-vis the target chosen by SABESP; and

$\frac{1}{6} \times I_{PRECI}$: tariff impact percentage (positive or negative) associated with the PRECI's performance in each year between 2025 and 2030 vis-à-vis its respective target. In turn, I_{WOCI} is the value of the cell (or the interpolation between cells described in subclause 5.5) of the target menu associated with the performance of PRECI in each year between 2025 and 2030 vis-à-vis the target chosen by SABESP.

5.8.1 It will be up to ARSESP in the 1st ADJUSTMENT to define, in specific regulation:

- (i) A new menu of targets for each of the VLI, WOCI, PRPI, and PRECI indicators, applicable for the remainder of the 1st TARIFF CYCLE. This menu must be published before ARSESP completes the 1st TARIFF ADJUSTMENT, to be approved in December 2025. This will allow SABESP to choose the corresponding targets to be applied in 2026 and in subsequent TARIFF ADJUSTMENTS;
- (ii) The procedure for calculating the tariff impact percentage of the DWCI and RISTE indicators, in compliance with current regulations; and
- (iii) The assessment methodology and the goal(s) of PRECI.

5.9 There will be a maximum variation limit for the Q FACTOR, both positive and negative, set at up to $\pm 2.0\%$.

5.9.1 Starting in the 2nd TARIFF CYCLE, which will begin on January 01, 2030, ARSESP may, at each PERIODIC TARIFF REVISION, reassess the basket of indicators and weights that make up the calculation of the Q FACTOR and only the weights of the indicators that make up the U FACTOR, provided that the discount limit, adding both factors in the IRT, remains equal to 12%, under the terms of this ANNEX. It is mandatory that this reassessment include, though not necessarily exclusively or with the same weightings as in this CONTRACT, indicators for water supply coverage, sewage collection and removal, and sewage treatment; indicators that measure the quality of water treatment and sewage treatment; the continuity and consistency of water supply; the continuity of sewage removal; the customer service index; the efficiency and speed in handling user complaints; and the standards for pavement restoration time and quality.

5.10 Any modification to the maximum variation limit for the Q FACTOR, as well as any changes contemplated in this clause, must be preceded by a public participation process and a Regulatory Impact Analysis, as established in ARSESP's regulations.