

**ANNEX III -
VIOLATIONS AND PENALTIES**

1. PRESENTATION

- 1.1.** Penalties shall be applied according to the rules established in this ANNEX, under the general norms of the CONTRACT, and provided these legal disciplines are being respected, the provisions established in the ARSESP REGULATION.
- 1.1.1.** Any norm edited by ARSESP that bring provisions or complement the matters related to violations and penalties that may be applied within the scope of the CONTRACT must be compatible with this ANNEX and be submitted to the social control process, pursuant to the terms of the REGULATION, ensuring SABESP's participation and in compliance with the provisions set forth in item. 7.5 of this ANNEX.
- 1.1.2.** The typification and penalties provided for in this ANNEX shall only be applied to the conduct perpetrated by SABESP after the EFFECTIVE DATE, thus any previous conduct shall remain subject to the penalties established in regulation in force at that time.
- 1.1.3.** However, the sanctioning procedure provided for in this ANNEX may be immediately applied, in its entirety, to sanctioning processes that are underway, including those that address the mitigating circumstances provided for in item 3.
- 1.2.** This ANNEX, in addition to the CONTRACT, aims to regulate the penalties applied within the scope of the CONTRACT, typify the contractual violations, and provide details on the administrative procedure for applying contractual penalties, guaranteeing the right to contradiction and the right to a full defense, pursuant to State Law 10,177/1998, observing any subsequent legal disciplines or regulation governing the matter.
- 1.3.** The application of the penalties provided for in this ANNEX, and compliance with these rules, does not prohibit the application of other sanctions provided for in the CONTRACT and other ANNEXES, under APPLICABLE LEGISLATION and relevant regulation to which SABESP is subject.
- 1.4.** Notwithstanding the application of the penalties provided for in this ANNEX, ARSESP may apply as established in the CONTRACT and other ANNEXES, according to article 7, item V of Complementary State Law 1,025/2007, the tariff discount through the X Factor, U Factor, and/or Q Factor, which are not subject to the rules of this ANNEX.
- 1.5.** ARSESP Resolution 31/2008 does not apply to the CONTRACT.

2. GENERAL PROVISIONS

- 2.1.** If a single conduct corresponds to more than one violation, under the provisions set forth in this ANNEX, the principle of specialty shall be observed, in which a penalty corresponding to the most specific violation shall be applied, prohibiting the accumulation of more generic violations relating to the same conduct.
- 2.2.** Penalties shall not be applied to SABESP for violations that are proven to have been a result of force majeure, unforeseeable circumstances and/or if they configure the unenforceability of a different conduct when such event in which SABESP was not liable or responsible for, gave rise to the direct and immediate violation of conduct.

3.3. The value of the fine, in the situations provided for in item 3.2, shall always be established respecting the minimum and maximum values established in this ANNEX, ensuring proportionality between the violations and the corresponding sanction, observing the following criteria, as applicable:

- i. the nature and severity of the violation;
- ii. acts of fraud by SABESP or its agents;
- iii. damage caused to ARSESP, the GRANTING AUTHORITY, the SERVICE or the USERS;
- iv. benefits granted by SABESP arising from the violation of conduct;
- v. measures adopted by SABESP to minimize the damage caused by the violation;
- vi. the economic and financial situation of SABESP, in particular its ability to pay its financial commitments, generate revenues and maintain the execution of the CONTRACT;
- vii. SABESP's preceding information.

3.4. The value of the fine, defined according to the irregular conduct in this ANNEX or through the mechanism provided for in item 3.3, may be increased or reduced due to the aggravating and mitigating circumstances.

3.4.1. The following shall be considered as mitigating circumstances, notwithstanding other mitigating circumstances provided for in the ARSESP REGULATION:

- i. the recognition, during the deadline for submitting the administrative defense or its substitution, of the violation of conduct for the matter of concern, as well as responsibility for said conduct: a 30% (thirty percent) reduction in the established fine value, given that SABESP spontaneously pays the fine after its value has been determined;
- ii. the recognition, prior to the sentencing decision, of the violation of conduct for the matter of concern, as well as responsibility for said conduct: a 20% (twenty percent) reduction in the established fine value, given that SABESP spontaneously pays the fine after its value has been determined;
- iii. the recognition, after the sentencing decision but prior to the announcement of an administrative appeal, of the violation of conduct for the matter of concern, as well as responsibility for said conduct: a 10% (ten percent) reduction in the established sentenced amount, given that SABESP spontaneously pays the fine after its value has been determined;

3.4.1.1. SABESP may choose to spontaneously pay fine values without it being configured as a recognition to the violation of conduct if, in any of the

three situations listed in subitem 3.4.1., it waives any further questioning in all competent authorities and institutions.

- 3.4.2.** The following shall be considered as aggravating circumstances, notwithstanding other aggravating circumstances provided for in the ARSESP REGULATION:
- i. a violation of conduct through fraud or in bad faith: 30% (thirty percent) increase over the base value established for the fine;
 - ii. a violation of conduct that results in irreversible damage to the SERVICE and/or USERS: 30% (thirty percent) increase over the base value established for the fine; and
 - iii. a violation of conduct that results in damage to USERS, SERVICES or LINKED ASSETS, despite a recommendation, by ARSESP, suggesting actions aimed at mitigating the risk of such damage: 30% (thirty percent) increase over the base value established for the fine.
- 3.4.3.** If more than one aggravating circumstance occurs simultaneously, or if they are combined with mitigating circumstances, the corresponding percentages shall be added or subtracted, in which the net balance of the aggravating and mitigating circumstances shall be applied.
- 3.4.4.** The effectiveness of the mitigating actions provided for in item 3.4.1 is subject to suspensive conditions relating to the spontaneous payment, by SABESP, of the established fine and applied at the end of the due administrative process. Once the deadline payment period established for the fine has elapsed, without its unconditional payment, any mitigating action will be disregarded and all legally or contractually established measures shall be applied for collecting the fine.
- 3.4.5.** ARSESP may, under the REGULATION, include new aggravating or mitigating circumstances, provided that a public consultation has been carried out prior to amending the standards, observing the following guidelines:
- i. the mitigating circumstances must be based on the recognition of a less severe event or a less reprehensible conduct by SABESP, encouraging the adoption of measures to correct irregularities or mitigate damage, or measures to reduce procedural litigation, and the reduction in the established fine value may not surpass 30%, considering any subsequent legal or regulatory discipline governing the matter;
 - ii. the mitigating circumstances must be based on the recognition of a less severe event or a less reprehensible conduct by SABESP, encouraging the adoption of measures to correct irregularities or mitigate damage, or measures to reduce procedural litigation, and the reduction in the established fine value may not surpass 30%, considering any subsequent legal or regulatory discipline governing the matter;

3.5. In the event a fine has been applied, it shall be paid by SABESP, within 30 (thirty) calendar days from the date the notice of payment was issued, in favor of FAUSP to contribute to the affordability of the fees charged to USERS, and proof of payment must be included in the records of the administrative sanctioning process within the same period.

3.5.1. Failure to make such payment shall result in a claim being filed with the insurer, without any further actions necessary.

3.5.2. SABESP is fully aware that ARSESP may inform the respective insurer regarding the installation of an administrative sanctioning process, thus ensuring its right to eventual indemnity, under the rules provided for in State Law 10,177/1998, observing any subsequent legal or regulatory discipline governing the matter.

3.5.3. Failure to pay fines that have been applied to SABESP within the period established in this ANNEX shall automatically generate an interest of 1% (one percent) per month, and a corresponding monetary adjustment by the IPCA/IBGE price index, pro rata die, starting from the respective due date until the actual payment date. Any monetary penalty that has been applied to SABESP shall be collected as established by current regulation, notwithstanding the registration of the unpaid debt in the State's CADIN and Overdue Debt records.

3.5.4. Failure to pay any due fines, within the established terms and deadlines, shall constitute a severe breach, giving rise to the execution of a PERFORMANCE GUARANTEE, under the provisions of Clause 11 of the CONTRACT, without any further measures necessary.

4. TEMPORARY SUSPENSION OF THE RIGHT TO BID AND RESTRICTIONS TO SIGN CONTRACTS WITH DIRECT OR INDIRECT PUBLIC ADMINISTRATION BODIES OF THE STATE OF SÃO PAULO AND DECLARATION OF UNSUITABILITY TO BID OR SIGN CONTRACTS WITH PUBLIC ADMINISTRATION BODIES

4.1. The right to participate in bids and to sign contracts with direct or indirect Public Administration Bodies of the State of São Paulo may be suspended, and the declaration of unsuitability to bid or sign contracts with PUBLIC ADMINISTRATION bodies may be applied, respecting the legal rules on the matter, in cases of recurring practices of contractual or regulatory breaches, as well as breaches that cause severe harm to the public interest, in addition to the situations provided for in applicable legislation and standards, with highlight to those foreseen in article 82 of State Law 6,544/1998, when they result in the cancellation of the CONCESSION, also considering the following circumstances, aimed at guaranteeing the principles of reasonableness and proportionality:

- i. the nature and severity of the violation;
- ii. acts of fraud by SABESP or its agents;
- iii. damage caused to ARSESP, the GRANTING AUTHORITY, the DELEGATED SERVICE or the USERS;
- iv. benefits granted by SABESP arising from the violation of conduct;

- v. measures adopted by SABESP to minimize the damage caused by the violation;
 - vi. the economic and financial situation of SABESP, in particular its ability to pay its financial commitments, generate revenues and maintain the execution of the CONTRACT;
 - vii. SABESP's preceding information.
- 4.2.** The suspension of the right to participate in bids and to sign contracts with direct or indirect Public Administration bodies of the GRANTING AUTHORITY may be applied for a period no longer than 2 (two) years.
- 4.3.** The declaration of unsuitability to bid or sign contracts with Public Administration bodies shall be in effect as long as the reasons for such sanctions still exist or until the matter has been restored with the authority that applied said penalty.
- 4.3.1.** The restoration of the matter must be requested with the authority that applied said penalty and will be granted whenever SABESP compensates the Administration body for losses resulting from its actions, provided that a period of 2 (years) has elapsed since the penalty was applied.

5. PROCEDURE

- 5.1.** The investigation of violations, application of penalties or any other restrictive measures on the rights foreseen in the CONTRACT must be preceded by administrative proceedings, governed by State Law 10,177/1998, observing any subsequent legal or regulatory discipline governing the matter, as well as following the rules established in this ANNEX and, subsidiarily, in the ARSESP REGULATION, notwithstanding the application of the CONTRACT and other ANNEXES, as the case may be, guaranteeing the right to contradiction and the right to a full defense.
- 5.1.1.** The process of applying penalties will initiate by means of a notification to SABESP, duly instructed, as applicable, with a copy of a document describing the identified irregularity, indicating a deadline for presenting a prior defense, pursuant to State Law 10,177/1998, observing any subsequent legal or regulatory discipline governing the matter.
- 5.1.2.** Any errors in classifying or indicating the applicable penalty by the inspection agent may be corrected within the scope of the administrative sanctioning process, with SABESP's defense period being returned, if the correction results in any new factual information.
- 5.2.** It is possible to cumulate, in the same administrative sanctioning process, the following:
- i. related cases involving violations that have been identically classified, in which case the dosage of penalties applied will consider the number of violations incurred; and
 - ii. occurrences that have been identified in the same MUNICIPALITY, during the same inspection procedure carried out by ARSESP, even if the violations receive different classifications.

AUTHORITY, its employees, USERS or third parties, arising from the activities related to the CONCESSION.

5.7.1. The rectification of faults identified during the inspection process does not eliminate the lack of compliance and, consequently, corresponding penalties shall be applied, under the terms of the CONTRACT, the ANNEXES, subsidiarily the REGULATION and APPLICABLE LEGISLATION.

5.8. Unless otherwise specified, deadlines will be counted on a consecutive basis, excluding the initial date and including the deadline date, and deadlines expiring on a day that is not a business day at the supervisory body will be extended to the following business day.

5.8.1. Except if expressly foreseen in the CONTRACT, deadlines will only initiate and end on business days at the governing body or entity.

5.8.2. Deadline shall be extended until the following business day if, on the deadline date, business hours close prior to normal hours.

5.8.3. Hourly deadlines will be counted in minutes.

6. VALUES FOR THE FINES

6.1. Violations are classified into categories, according to their severity, and the following penalties and/or contractual regulatory consequences shall apply:

I – Warning

II - Fines:

a) Group I: up to 0.01% of the service provider's annual net revenue;

b) Group II: up to 0.1% of the service provider's annual net revenue;

c) Group III: up to 1.0% of the service provider's annual net revenue;

6.2. For the purpose of establishing fine values, the annual net revenue shall be considered as:

i. the total amount accrued by SABESP, characterized by the gross revenue during the last fiscal year that originated from TARIFF REVENUE, deducting applicable taxes; or

ii. when the violation of conduct is linked to a MUNICIPALITY and/or a specific territorial section (formal urban, consolidated informal urban, and rural), it will be calculated based on the operating area of the service provider in said MUNICIPALITY and/or territorial section where the violation occurred.

6.3. Penalties in the form of warnings, after being resolved by the Board, will be notified to the service provider and recorded as a lack of compliance.

6.4. The total fine value applied in a final decision, which is understood as one that cannot have its own administrative appeal within the scope of the administrative process at ARSESP, arising from violations incurred in the same calendar month, may not exceed 5% (five percent) of SABESP's average monthly revenue, as stated in the balance sheet of the last fiscal year.

6.5. Surpassing the limit established in item 6.4 for 3 consecutive months, or 6 alternating months during the calendar year, may give rise to the initiation of a termination process of the CONTRACT.

7. IRREGULAR CONDUCT

7.1. Violations of conduct subject to penalties, such as warnings and fines, within Group I shall be considered when, cumulatively:

- I SABESP acknowledges the violation of conduct and its responsibility;
- II SABESP provide evidence, within the established deadline for presenting its prior defense, that it has already rectified the conduct, observing the deadline required by ARSESP during the inspection process, as applicable; and
- III SABESP does not repeat the violation of conduct, as provided for in items 7.1.1 to 7.1.2.2.

7.1.1. For the purpose of this ANNEX, a recurrence shall be considered when the same violation of conduct is repeated within a period of 12 (twelve) months after the date on which the first violation incurred by SABESP.

7.1.1.1. For the purpose of characterizing a recurrence, only violations of conduct incurred by SABESP from the EFFECTIVE DATE onwards will be considered, in accordance with the classification defined in this ANNEX.

7.1.2. For the purpose of characterizing recurrence, it is not required for a conviction to have been issued at the time of the recurring violation, nor do administrative sanctioning proceedings need to have been initiated relating to the previous violation.

7.1.2.1. An administrative conviction for a previous violation is a condition for definitively assigning the status of recurring violator in a subsequent violation of conduct, and consequently to enforce the applicability the fine established in item 7.2.

7.1.2.2. When a conviction regarding a previous violation has not reached its final phase in the administrative sphere, the application of a penalty for a subsequent violation of conduct shall be characterized as a recurrence on a provisional basis, for the purpose of item 7.2, whose effects shall be automatically dropped, regardless of an express request by SABESP, if, at any time and for any reason, a conviction for the previous violation of conduct no longer exists.

7.1.2.3. In situations such as aforementioned item 7.1.2.2, the fine penalty applicable to a recurring violation will only be due when the characterization of a recurrence has been confirmed, and ARSESP must decide, prior to applying the fine, if such fine may be converted into a warning, under the terms of aforementioned item 7.1.

7.2. The following violations of conduct are subject to the penalties and fines within Group I:

- I - not allowing ARSESP access to the records of each operational water and sewage treatment unit, with information that allows the identification of the quantity and quality of the water being collected, treated, transported, reserved, distributed and billed for water supply, and information on sewage being collected, pumped, treated and released into the environment, as well as the locations, equipment, shutdown or deactivation of any unit and any other data required by law, regulation or foreseen in the CONTRACT.

II - not allowing USERS access, via the Internet website and at public service locations, to copies of the Consumer Protection Code, the Ministry of Health Ordinance that establishes the water drinkability standards, and the manual on the general conditions for the supply of public water and sewage collection services;

III - not disclosing, through publication in mass media, or not allowing USERS access to the tables informing the APPLICATION TARIFFS at public service locations and on the SABESP website;

IV - not providing, without just cause, and upon proof by a protocol number issued by SABESP, information requested by USERS, exception for information protected by confidentiality due to business strategy or safety, within the deadline established by law, regulation, the CONTRACT or, if these instruments do not establish a deadline, within the maximum deadline provided for in the REGULATION;

V - not maintaining ARSESP and the GRANTING AUTHORITY with updated records containing the full address of the headquarters and regional offices, as well as the respective means of communication to allow easy access to the company;

VI - not allowing USERS access to the company via a website and through telephone services;

VII - not maintaining a file with all documents of interest or provided to ARSESP, during a minimum of 5 (five) years or during the term of the CONTRACT, when it involves documents required to enable the reversion of REVERSIBLE ASSETS, to calculate any due compensation at the end of the CONTRACT and to monitor the financial flow of the SERVICES;

VIII - not maintaining an updated record of USER complaints and inquiries, containing information such as dates, reasons, fees charged and services executed, as well as not informing the interested party about the measures adopted within the deadline established by applicable regulation and the CONTRACT;

IX - not refunding USERS the amounts proven to have been received unduly, within the deadline established by law, regulation or the CONTRACT or, if these instruments do not establish a deadline, within a maximum period of 30 (thirty) calendar days, starting from the date when the USER communicated the occurrence or when SABESP effectively investigated the occurrence, respecting the fact that the due amount must be refunded in double, pursuant to APPLICABLE LEGISLATION and REGULATION;

X - not highlighting SABESP's telephone number and website information on the USERS' water and sewage bills;

XI - not responding to complaints and service inquiries within the deadlines and under the conditions established by law, regulation or the CONTRACT or, if these instruments do not establish a deadline, within a maximum period of 10 (ten) calendar days, from the receipt protocol;

XII - not measuring and billing in accordance with the provisions of the SERVICE REGULATION;

XIII - not communicating to the competent authorities, immediately after proven knowledge, the discovery of material or unusual objects on construction sites, which may be of geological or archaeological interest;

XIV - not installing water measuring equipment in user units, except in specific situations provided for by law, regulation or the CONTRACT; and

XV - not maintaining records, control and physical inventory of the LINKED ASSETS, under the terms of the CONTRACT.

7.3. The following violations of conduct are subject to the penalties and fines within Group II:

I - suspending SERVICES while the USER's complaint, duly communicated to SABESP, is being analyzed by ARSESP, as applicable, in compliance with the terms set forth in article 33, paragraph 1, of Law 10,177/1998;

II - failure in providing prior notice on the suspension or interruption of water supply, pursuant to the SERVICE REGULATION;

III - failure in providing a database with operational information on historical data and "online" and "real time" information, on the SERVICES, to ARSESP and the GRANTING AUTHORITY, including credible and accurate information, statements and/or reports, within the required deadline, that enable the monitoring of data relating to services corresponding to operational functions, as established in the CONTRACT and ANNEXES;

IV - failure in maintaining updated data or in complying with the minimum requirements defined for the automatic forwarding of information to ARSESP's audit systems, in accordance with deadlines and stages of the established schedules and in compliance with the CONTRACT and ANNEXES;

V - not communicating, in advance, all health establishments and educational and collective hospitalization establishments regarding expected dates in which water supply or sewage collection services will be interrupted or restricted, with an explanation for such interruptions or restrictions, in compliance with the SERVICE REGULATION;

VI - not ensuring the integrity of the LINKED ASSETS to the SERVICES provided;

VII - not carrying out accounting practices in accordance with the rules established by law, regulation or the CONTRACT;

VIII - not forwarding to ARSESP or the GRANTING AUTHORITY, within the established deadline or, in the lack thereof, within the deadline of 7 (seven) days as established in article 32, item VI, of State Law 10,177, of December 30, 1998, data not previously classified by the solicitor as critical, accompanied by the requested information and documents, if the conduct does not characterize another more severe violation, as provided for in this ANNEX or the REGULATION;

IX - failure to comply with ARSESP's determinations within the established deadline or, in the lack thereof, within the deadline of 7 (seven) days as established in article 32, item VI, of State Law 10,177/98;

X - creating obstacles or unjustified resistance to the inspections carried out by ARSESP;

XI - failure in communicating ARSESP and USERS regarding any circumstances that affect the quality, continuity, efficiency and safety that affect USERS or changes the conditions of the SERVICES provided, within the deadlines established in the SERVICE REGULATION;

XII - assigning or transferring operational units and their respective land, for any reason, as well as ensuring these assets as collateral, without prior authorization from ARSESP, under the terms of the CONTRACT;

XIII - not establishing the Ombudsman's Office or Ethics Committee under the terms of State Law 10,294, of April 20, 1999, or not ensuring their adequate operating conditions;

XIV - failure in carrying out and making available the user satisfaction survey to the GRANTING AUTHORITY, ARSESP and USERS, pursuant to legislation, regulation or the CONTRACT;

XV - not executing repair work on pavement of public roads and sidewalks, reinstalling street furniture and horizontal and vertical road signs, as established in the guidelines, technical specifications and deadlines of the CONTRACT and its ANNEXES, as well as in accordance with municipal standards or regulations;

XVI - creating new sewage connections that are discharged into the rainwater drainage network;

XVII - failure in complying with regulatory deadlines to enable the licensing of INVESTMENTS by SABESP;

XVIII - failure in adequately operating, as defined in the CONTRACT, the REGULATION and APPLICABLE LEGISLATION, as well as in ANNEX II, the individual alternative solutions adopted by USERS in rural areas;

XIX - not hiring the VALUATION COMPANY and the INDEPENDENT VERIFIER, under the terms and conditions foreseen in ANNEX VI - GUIDELINES FOR THE VALUATION COMPANY AND THE INDEPENDENT VERIFIER;

XX - not presenting, by December 31, 2026, the regulatory accounting under the terms established in the CONTRACT;

XXI - not presenting, by December 31, 2025, the LICENSING, PERMISSIONS AND AUTHORIZATIONS PLAN; and

XXII - failure in forwarding to ARSESP the results of measurements taken for the quality of treated water or treated sewage, regardless of whether or not the minimum number of measurements required in the CONTRACT or applicable legislation has been surpassed.

7.4. The following violations of conduct are subject to the penalties and fines within Group III:

I - not carrying out the works necessary to provide adequate services, or not maintaining and operating the corresponding facilities and equipment that adequately meets the terms and conditions set out in ANNEX II - TECHNICAL ANNEX OF EACH MUNICIPALITY, as well as its subsequent revisions and changes;

II - not carrying out, within the established deadlines, urgent repairs, improvements, replacements and modifications to the facilities;

III - not communicating immediately to ARSESP and the competent environmental, water resources management and health authorities, any proven knowledge of contamination accidents and changes in standards that affect water quality;

IV - not communicating to USERS, as soon as proven knowledge occurs, of any abnormality in the quality of drinking water standards that could put their health at risk;

V - not carrying out quality control of treated water distributed to the population under the provisions of the Ministry of Health;

VI - interrupting, without prior notice to the contractors, the distribution of wholesale water supply or reducing it to a volume lower than what was contractually agreed by the parties;

VII - establishing rationing measures and procedures to water supply without prior authorization from the water resources management authority and without prior communication to ARSESP;

VIII - interrupting water supply or sewage collection services for reasons related to faults in SERVICES or poor maintenance of systems and facilities affecting:

Municipalities with less than 30,000 inhabitants:	more than 600 customers or over 20% of the municipality's users
Municipalities with 30,000 to 200,000 inhabitants:	more than 4,000 users
Municipalities with 200,000 to 1,000,000 inhabitants:	more than 20,000 users
Municipalities with over 1,000,000 inhabitants:	more than 50,000 users

IX - charging APPLICATION TARIFFS, if applicable, and OTHER PRICES at values higher than those authorized by ARSESP;

X - applying tariff discounts in disagreement with the provisions set forth in legislation, regulation or the CONTRACT;

XI - not informing ARSESP and the GRANTING AUTHORITY of the receipt of ADDITIONAL REVENUE, COMPLEMENTARY REVENUE or revenue arising from ASSOCIATED PROJECTS, as well as failure in identifying costs shared with the main object of the contract, through regulatory accounting under the terms of the CONTRACT;

XII - providing false information to ARSESP, the GRANTING AUTHORITY, or the USERS;

XIII - not providing water through the public supply system and within the drinkability standards established in specific legislation issued by the Ministry of Health;

XIV - discharging sewage, after it has been treated, in conditions below the required standards of sanitation plans and environmental agencies, observing the permitted tolerance margin;

XV - not submitting to ARSESP a request for prior approval of any changes to the bylaws and transfer of shares that imply a change in ownership CONTROL, if possible, given the corporate context and APPLICABLE LEGISLATION;

XVI - not forwarding to ARSESP or the GRANTING AUTHORITY, within the established deadline or, in the lack thereof, within the deadline of 7 (seven) days as established in article 32, item VI, of State Law 10,177/98, the data previously classified by the solicitor as critical, accompanied by the requested information and documents;

XVII - failure to comply with the MANDATORY INVESTMENTS as provided for in ANNEX II – TECHNICAL ANNEX OF EACH MUNICIPALITY; and

XVIII – adopting measures to manage losses of treated water by reducing pressure across the water distribution system, thus resulting in a shortage of water for USERS, unless there are exceptional and duly justified reasons that meet the requirements established in the REGULATION.

7.4.1. For the purpose of item XIV of this item, for situations in which more restrictive standards are defined, SABESP shall be granted a reasonable and sufficient adaptation deadline.

7.5. ARSESP may, in the REGULATION and after a public consultation, include, exclude or change the types of violations described in items 7.1 to 7.4, regardless of signing an addendum to the CONTRACT, provided that the following guidelines are followed:

- i. Violations of conduct subject to the fines established within the scope of Group I shall be considered those that do not meet the classification requirements for the fines established within the scope of Group II or Group III violations;
- ii. Violations of conduct subject to the fines established within the scope of Group II shall be considered those that represent, or result, in any of the following requirements:
 - risk to the integrity and conservation of the LINKED ASSETS;
 - risk to the environment;
 - risk to the health or safety of any person;
 - obstacle or unjustified resistance to the inspections carried out by ARSESP;
 - failure to comply with a determination set by ARSESP;
 - refusal or failure to present information or documents to any person or authority to which it is obliged.
- iii. Violations of conduct subject to the fines established within the scope of Group III shall be considered those that represent, or result, in any of the following requirements:
 - effective harm to human health;
 - effective risk to the environment;
 - effective risk to the LINKED ASSETS in providing SERVICES or third-party assets;
 - violation of USER rights;
 - commercial or tariff practices that are contrary to the requirements established in the CONTRACT, the ANNEXES, the REGULATION or APPLICABLE LEGISLATION;
 - risk to the continuity of SERVICES;
 - failure to comply with deadlines or requirements established in the CONTRACT, the ANNEXES, the REGULATION, any APPLICABLE

LEGISLATION, or the REGIONAL SANITATION PLAN, regarding investments and works that are planned or have been carried out.

- 7.6.** Final decisions issued by ARSESP are definite at an administrative level, and the PARTIES are responsible for adopting, as applicable, the mechanisms provided for in the CONTRACT for resolving disputes.